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CONTENTS – PART II – TOOLS

SECTION 600

Planning and General

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601 - INTRODUCTION TO PART II – TOOLS

.01 Part II of the GAO/PCIE *Financial Audit Manual* (FAM) consists of tools to assist the auditor[1] in performing a financial statement audit. These tools are generally organized according to the phases of the audit: tools in section 600 deal with the planning phase and general issues; section 700, the internal control phase; section 800, compliance; section 900, substantive testing; and section 1000, the reporting phase.

.02 Many of the tools in the various sections include activities that would be performed during other phases of the audit. Thus, the auditor should refer to the sections in part II early in the audit. For example, section 701, Assessing Compliance of Agency Systems with the Federal Financial Management Improvement Act, includes procedures that would be performed throughout the audit, not just during the internal control phase, although many of them would be performed then. Also, section 902, Related Parties, Including Intragovernmental Activity and Balances, has procedures that the auditor may decide to perform in the planning and internal control phases of the audit as well as during the testing phase.

.03 The audit procedures presented in the examples in this and other sections of part II (tools) of the GAO/PCIE FAM are examples of some of the audit steps typically performed in each area. They should be used in conjunction with the appropriate FAM sections. In using these procedures, the auditor should use judgment to add additional procedures, delete irrelevant procedures, modify procedures, indicate the extent and timing of procedures, and change the terminology to that used by the audited entity. The auditor may integrate these steps with the audit programs for related line items. For example, tests of intragovernmental activity and balances (section 902) may be integrated with tests of accounts receivable and payable, and, to improve efficiency, the auditor may coordinate those tests with related nonintragovernmental activity and balances.

1 The term "auditor," throughout the FAM includes individuals who may be titled auditor, analyst, evaluator, or have a similar position description.

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650 - USING THE WORK OF OTHERS

.01 In many audits, the auditor uses the work and reports of other auditors and specialists. Other auditors include CPA firms, Inspectors General, state auditors, and internal auditors. Specialists include actuaries and information systems auditors. The audit organization may contract with a CPA firm to perform parts of or the entire audit. The audit organization should use FAM 650 to design and perform appropriate oversight and other procedures to use the work of other auditors and specialists. (The audit organization using the work of other auditors and specialists is referred to below as "the auditor.") This section provides guidance on using the work of other auditors and specialists and the nature and extent of procedures the auditor should perform.

.02 Various professional standards provide guidance in this area. These standards include AU 543, "Part of Audit Performed by Other Independent Auditors"; AU 322, "The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements"; AU 336, "Using the Work of a Specialist";[1] and AU 315 (SAS No. 84), "Communication Between Predecessor and Successor Auditors." These standards have different requirements depending on whether the other organization is an independent auditor, an internal auditor, or a specialist.

.03 The auditor may use the work of other auditors and specialists in various situations, for example:

- audits by Inspectors General or CPA firms in accordance with the GAO/PCIE FAM;
- CPA firms or specialists hired to do parts of an audit (for example, review information systems controls, review actuarial calculations, test specific accounts);
- single audits or audits of federal funds performed by state auditors and CPA firms;
- work performed by internal auditors; and
- internal audit staff who provide direct assistance to the auditor.

.04 AU 543.13 states: "In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with

[1] The AICPA also issued Practice Alert 2002-02, *Use of Specialists*.

management personnel of the component whose financial statements are being audited by other auditors and/or to make supplemental tests of such accounts. The determination of the extent of additional procedures, if any, to be applied rests with the principal auditor alone in the exercise of his professional judgment and in no way constitutes a reflection on the adequacy of the other auditor's work. Because the principal auditor in this case assumes responsibility for his opinion on the financial statements on which he is reporting without making reference to the audit performed by the other auditor, his judgment must govern as to the extent of procedures to be undertaken."

.05 The above paragraph makes clear that the principal auditor exercises considerable judgment in deciding what procedures are necessary to use the work of the other auditor. FAM 650 provides guidance in making the judgments necessary to use the work of others. These judgments include

- the type of reporting (see paragraphs 650.09-.10),
- the auditor's evaluation of the other auditors' or specialists' independence and objectivity (see paragraphs 650.11-.24),
- the auditor's evaluation of the other auditors' or specialists' qualifications (see paragraphs 650.25-.35), and
- the auditor's determination of the level of review (see paragraphs 650.36-.41).

.06 The auditor should coordinate with other auditors whose work he or she wishes to use. In turn, the other auditor should consider the needs of auditors who plan to use the work being performed so that the judgments exercised by both auditors could satisfy the needs of both. This is best done before major work is started. For example, auditors of a consolidated entity (such as the U.S. government or an entire department or agency) are likely to plan to use the work of auditors of subsidiary entities (such as individual departments and agencies or bureaus and components of a department). This coordination can result in more economy, efficiency, and effectiveness of government audits in general and avoid duplication of effort. In addition, the coordination needs to be ongoing throughout the audit so that the timing needs of both the auditor and the other auditors are met. The other auditors should make their audit documentation available for review by the auditor on an ongoing basis during the audit.

.07 In this coordination, the auditor should inform the other auditor how his or her work and report will be used. AU 543.07 indicates that if the auditor's report will name the other auditor, the auditor should obtain permission to do so and should present the other auditor's report together with the principal auditor's report. For CPA firms, this permission may be obtained through the contracting process. The auditor also should provide the other auditors a draft of the report as a courtesy.

.08 When there is a difference of opinion between the two auditors, the principal auditor generally should confer with the other auditor to reach agreement with him or her as to the procedures necessary to satisfy both auditors' professional judgments. If both auditors are unable to reach agreement, see paragraphs 650.54 to .56. Section 650 B contains example audit procedures for using the work of others, which depend on the judgments made.

TYPES OF REPORTING

.09 There are various types of reporting when using the work of other auditors and specialists. The type of reporting depends on the degree of responsibility the auditor accepts and the work performed by the auditor. Factors for the auditor to consider in deciding which type of reporting to use include the amount of assurance the auditor wishes to provide, legal requirements, and cost-benefit considerations. The degree of resources required varies by type of report and generally increases in the order presented below. The type of reporting should be decided in planning the job and generally should be discussed with the other auditors or specialists. In deciding the type of reporting, the auditor should consider AU 504.03, which states that an auditor is "associated with financial statements when he has consented to the use of his name in a report, document, or written communication containing the statements." (Section 650 C contains examples of wording for two types of reporting.) The types of reporting are as follows.

a. **No association with report—**In this situation, the other auditors' or specialists' report is provided directly to the auditee and/or to significant users. The auditor may use this method when the auditor merely procures the audit but is not acting as "the auditor." For example, if there is no legal requirement for a separate report by the auditor, the user does not need a separate report from the auditor, and a separate report would provide no additional information. When the auditor is required by law to perform the audit, he or she should not use this option since he or she is associated with the report.

b. **Auditor transmittal letter—**There are two types of transmittal letters, one expressing no assurance and one expressing negative assurance on the other auditors' work. For either type, the auditor is associated with the financial statements as described in AU 504. The fourth standard of reporting states, (in the last sentence) "where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking." Because the auditor did not perform an audit, the auditor should disclaim an opinion and should not express concurrence with the other auditors' opinion. The auditor may use this approach when there is no legal requirement for the auditor to express an opinion or concurrence but the auditor is required to or wants to issue a report or letter. The auditor may expand the letter to highlight certain findings or information or to indicate that certain procedures were performed. See example 1 of section 650 C for wording for both types of transmittal letters.

- **Auditor transmittal letter expressing no assurance—**For this letter, the auditor issues a transmittal letter without reviewing the other auditors' documentation. In these situations, the transmittal should be clear as to the limitations of the auditor's work. The auditor still has the responsibility to monitor any contract and meet the requirements of the IG Act, as amended, CFO Act, and Accountability of Tax Dollars Act of 2002, if applicable.

- **Auditor transmittal letter expressing negative assurance—**This letter indicates that the auditor reviewed the other auditors' or specialists' report and related documentation and inquired of their representatives and states that the auditor found no instances where the other auditors did not comply, in all material respects, with *Government Auditing Standards* (GAGAS).

c. **The auditor issues a report that refers to other auditors' reports and indicates a division of responsibilities—**To use this approach, the auditor has two decisions to make: (1) whether the auditor may serve as the principal auditor (AU 543.01-.03) and (2) whether the auditor should refer to the work of the other auditors (AU 543.01-.10). The auditor should exercise considerable judgment in making these decisions and should document the basis for the decisions. One consideration the auditor may use in deciding whether the auditor is the principal auditor is whether the auditor has sufficient knowledge of the entire entity, including portions audited by other auditors. Another consideration is the materiality and importance of the consolidated assets, liabilities, expenses, revenues, or net position he or she has not audited. The auditor may issue a report that refers to other auditors when (1) the other auditors have reported on financial statements for a component entity that is part of the entity whose financial statements the auditor is reporting on and (2) the auditor does not wish to take responsibility for the other auditors' work. (See AU 543.09 for example wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent [see paragraph 650.14]; it may not be used for internal auditors or specialists.) However, if the reader of the report could question the basis for the principal auditor issuing the opinion because of the significant materiality and importance of the portion of the financial statements audited by the other auditors, the auditor should consider whether there is a need to issue a report that does not mention the other auditors' work, which may require additional work (see 650.09 e below).

d. **The auditor issues a report that expresses concurrence with the other auditors' report and conclusions—**The auditor may use this approach when other auditors have reported on financial statements and the auditor needs or wants to provide more assurance than what is provided by the transmittal letter.[2] Expressing concurrence means that the auditor would have reached the same opinion or conclusion had he or she done the audit. Therefore, the auditor needs to do the same level of work as he or she would have done to take responsibility for the other auditor's work.[3] The auditor usually accomplishes this by (1) reviewing the audit documentation and (2) having discussions with entity management and/or performing supplemental tests. See example 2 in section 650 C for report wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent (see paragraph 650.14). This report should not be used for specialists, since AU 336.15 prohibits reference to a specialist's report unless the auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work. This approach also should not be used for internal auditors. AU 322.19 notes that the responsibility to report on the

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[2] For example, a certain audit may be required by law, in which the auditor, although allowed to hire other auditors to do the work, is required to give his or her own opinion. In the absence of such a requirement, a report expressing concurrence is generally not cost-effective because of the resources required.

[3] In this instance both the other auditor and the auditor that expresses concurrence are principal auditors because both have sufficient knowledge of the overall financial statements and the important issues, and the concurring auditor, by reason of the level of work done, has also audited the financial statements.

financial statements rests with the auditor and cannot be shared with internal auditors.[4]

e. **The auditor issues a report that does not mention the other auditors' or specialists' work**—In this situation, the auditor issues the report in section 595 A and/or B (as if no other auditors or specialists were involved). <u>This means the auditor takes responsibility for the other auditors' or specialists' work. (See 650.09 c above for a discussion of principal auditor issues.)</u> The auditor may use this approach when the other auditors have done part of the audit; the approach also may be used when the other auditors have done substantially the entire audit.[5] The auditor usually accomplishes this by (1) reviewing the audit documentation and (2) having discussions with entity management and/or performing supplemental tests. The auditor also should use this approach when using the work of specialists and internal auditors, because professional standards do not permit referring to specialists' or internal auditors' work (unless, for specialists, the auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work). GAO uses this approach in the audit of the consolidated financial statements of the United States Government.

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4 There may be situations where the auditor is asked to provide a separate opinion in addition to presenting the other auditors' report. In these situations, the auditor should follow the wording in section 595 A and/or B and should add the following in lieu of the introduction to the first paragraph on page 595 A-5:

"To help fulfill these responsibilities, we contracted with the independent certified public accounting firm of [insert firm name] to perform a financial statement audit in accordance with U.S. generally accepted government auditing standards, OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. The report of [name of CPA firm] dated [date] is attached. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of [name of CPA firm], met with partners and staff members of [name of firm], evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records [if applicable], and performed other procedures we deemed appropriate in the circumstances. Our opinions expressed above are consistent with the opinions of [name of CPA firm]. Thus, in this audit, we:" (continue with numbered items).

5 For example, a number of other auditors may have audited individual components of an entity and the auditor may audit the consolidation process. The auditor may choose to use this approach if the auditor has sufficient knowledge of the entire entity and does additional work (see paragraph 650.10).

.10 The following chart presents an overview of the work the auditor generally should perform for each type of report or letter. "Yes" means some of that category of work generally should be performed. "No" means that the category is generally not required for the report or letter. The extent of work in each category depends on the auditor's judgment. See paragraph 650.36 for discussion on level of review.

Type of reporting	Evaluate the other auditors' independence and objectivity (paragraphs 650.11-.24)	Evaluate the other auditors' qualifications (paragraphs 650.25-.35)	Level of Review (paragraphs 650.36-.42)	Hold discussions and/or perform supplemental tests (paragraphs 650.43-.47)
No association with report (paragraph 650.09 a)	No[6]	No	None	No
Auditor transmittal letter expressing no assurance (paragraph 650.09 b, first bullet)	Yes	Yes	Low or none	No
Auditor transmittal letter expressing negative assurance (paragraph 650.09 b, second bullet)	Yes	Yes	Moderate or low	No
Report refers to the other auditors' report and indicates a division of responsibilities (paragraph 650.09 c)	Yes	Yes	Low or none	No

[6] If the auditor contracts with the other auditors, the contracting process generally will require the auditor to evaluate the other auditors' independence, objectivity, and qualifications and to monitor performance under the contract.

Type of reporting	Evaluate the other auditors' independence and objectivity (paragraphs 650.11-.24)	Evaluate the other auditors' qualifications (paragraphs 650.25-.35)	Level of Review (paragraphs 650.36-.42)	Hold discussions and/or perform supplemental tests (paragraphs 650.43-.47)
Report concurs with the other auditors' report or does not mention the other auditors' work (paragraph 650.09 d and e)	Yes	Yes	High, moderate, or low	Yes for internal auditors' work (should include supplemental tests). Yes for auditors' work for high level of review. No for auditor's work for moderate or low level of review

EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' INDEPENDENCE AND OBJECTIVITY

.11 Unless the auditor has no association with the report, the auditor should evaluate the other auditors' or specialists' independence and objectivity. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation. GAGAS 3.11 indicates that audit organizations and individual auditors should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance. The auditor should first evaluate organizational independence. Different standards apply to CPA firms, other organizationally independent auditors, internal auditors, and specialists.

.12 For CPA firms and specialists, the contracting process is designed to select a firm that is independent and objective. The statement of work or request for proposal should ask the firms to represent that they are independent and objective with respect to the auditee and should request the firms to describe in their proposals all work, including nonaudit services, they have done for the auditee in the last several years (see GAGAS Amendment No. 3, *Independence*, and *Answers to Independence Questions*). The technical evaluation panel should evaluate whether the nature and extent of this work or other factors cause an independence or objectivity issue. In this evaluation, the panel may consider, for example, whether (1) the other auditors will need to audit their own work or (2) whether the other auditors made management decisions or performed management functions.

.13 If possible,[7] the auditor should have a role in contracting for the CPA firm or specialist. When the auditor does not participate in contracting for the CPA firm or specialist, the auditor generally should obtain an overview of the contracting process; this generally should include reading the statement of work or request for proposal and the proposal of the firm selected, and understanding the evaluations of the panel selecting the firm. The auditor should determine whether the firm provided a representation as to independence and objectivity (usually in its proposal). If the firm has not provided a representation as to independence and objectivity, the auditor should obtain a representation from the firm. If the auditor is not familiar with the firm, the auditor should inquire of professional organizations (such as the American Institute of Certified Public Accountants or the Public Company Accounting Oversight Board established by the Sarbanes-Oxley Act of 2002) as to the firm's professional reputation and standing.

.14 For government auditors, the auditor should decide whether the other audit organization is organizationally independent to report externally or whether it should be considered an internal audit organization. The auditor may refer to the work of organizationally independent government auditors but should not refer to the work of internal audit organizations in the audit report; generally more extensive review and supervision are necessary when dealing with internal auditors. The auditor should obtain written representations from the head of the government audit organization that to the best of his or her knowledge, the organization and the individual auditors doing the work are independent of the entity being audited. This means that the individual auditors are free of personal impairments to independence and maintain an independent attitude and appearance; it also means that the organization is free from external impairments and is organizationally independent (see GAGAS 3.11). The representation letter may indicate the general criteria for determining independence, such as "under the criteria in GAGAS." The representations should be for the period of the financial statements to the date of the other auditors' report. Since the decision on the independence and objectivity of the other auditors is needed to plan the

[7] Under the CFO Act and the Government Management Reform Act, if the IG is not doing the audit, he or she is required to determine the CPA firm that will do the work.

auditor's work, the auditor generally should obtain oral representations early in the audit, with written representations at the end of the audit.[8]

.15 Government auditors may be presumed to be free from organizational impairments to independence when reporting externally to third parties if their audit organization is organizationally independent of the audited entity. Government audit organizations may meet the requirement for organizational independence in a number of ways. There is a presumption that a government audit organization is organizationally independent (GAGAS 3.30.1) if the audit organization is

a. "assigned to a level of government other than the one to which the audited entity is assigned (federal, state, or local), for example, a federal auditor auditing a state government program, or

b. "assigned to a different branch of government within the same level of government as the audited entity, for example, a legislative auditor auditing an executive branch program."

.16 There is also a presumption of organizational independence if the head of the audit organization (GAGAS 3.30.2) meets one of the following:

a. "is directly elected by voters of the jurisdiction being audited,

b. "is elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body,

c. "is appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body, or

d. "is appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and come from outside the organization being audited."

.17 If the other audit organization or its head meets one of the above criteria, the auditor need not perform any procedures concerning organizational

[8] Obtaining a representation from the head of the audit organization is similar to the procedure for CPA firms under AU 543.10b.

independence other than to obtain a representation letter from the head of the audit organization as noted in paragraph 650.14 (see paragraph 650.23 for tests of personal independence). However, if the auditor encounters evidence that the audit organization might not be organizationally independent, the auditor should consider the need for inquiries and other procedures; the auditor should then evaluate the results of these procedures.

.18 In addition to the presumptive criteria, GAGAS recognize that there may be other organizational structures under which a government audit organization could be free from organizational impairments. These other structures should provide sufficient safeguards to prevent the audited entity from interfering with the audit organization's ability to perform the work and report the results impartially. For the audit organization to be considered free from organizational impairments to report externally under a structure different from the ones listed above, the audit organization (GAGAS 3.30.3) should have **all** of the following safeguards:

a. "statutory protections that prevent the abolishment of the audit organization by the audited entity,

b. "statutory protections that require that if the head of the audit organization is removed from office, the head of the agency should report this fact and the reasons for the removal to the legislative body,

c. "statutory protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit,

d. "statutory protections that prevent the audited entity from interfering with the reporting on any audit, including the findings, conclusions, and recommendations, or the manner, means, or timing of the audit organization's reports,

e. "statutory protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis,

f. "statutory protections that give the audit organization sole authority over the selection, retention, and dismissal of its staff, and

g. "statutory access to records and documents that relate to the agency, program, or function being audited."

.19 If the head of the audit organization concludes that the organization has all the safeguards listed above, the audit organization may be considered free from organizational impairments to independence when reporting externally. The audit organization should document the statutory provisions in place that provide these safeguards. The external quality assurance reviewer will review these provisions to determine whether the necessary safeguards are present.

.20 The auditor using the work of other auditors who meets these requirements should request a representation letter (see paragraph 650.14) from the head of the audit organization; the auditor should review the above documentation and discuss it with the head of the audit organization. He or she also may discuss the matter with the external quality assurance reviewer, legal counsel for the audit organization, and his or her own legal counsel.

.21 If the auditor decides that the government audit organization is not organizationally independent to report externally (either because it does not meet the criteria in GAGAS or for another reason), the auditor should determine whether the other auditors are organizationally independent to report internally. These auditors are <u>internal auditors</u>. The Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing* defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." GAGAS contain guidance on organizational independence for government internal auditors. For example, internal auditors should be outside the staff or line management function of the unit under audit. They should report their results and be accountable to the head or deputy of their agency. IIA standards require internal auditors to be objective for the activities they audit. These GAGAS and IIA standards of independence for internal auditors differ from independence under the AICPA Code of Professional Conduct or independence for external auditors under GAGAS. The auditor generally should determine whether the internal auditors whose work is to be used are independent of the activities they audit. The auditor also should consider the organizational status of the head of the audit organization, including (GAGAS 3.30.5) whether the head:

- "is accountable to the head or deputy head of the government entity;
- "is required to report the results of the audit organization's work to the head or deputy head of the government entity, and
- "is located organizationally outside the staff or line management function of the unit under audit."

.22 If the auditor concludes that the internal auditors are not independent under GAGAS and IIA standards, the auditor should treat the work as if the auditee prepared it. If the auditor concludes that the internal auditors are independent under GAGAS and IIA standards, the auditor may use their work to the extent permitted by AU 322. In either case, the auditor may not issue a report referring to or concurring with the work of internal auditors.

.23 In addition to evaluating the other auditors' organizational independence, the auditor should evaluate whether the audit team has any personal impairments. For both internal auditors and organizationally independent government audit organizations, the auditor generally should ask how the other auditors monitor the personal independence of individual staff members, especially those doing the work the auditor would like to use.

.24 The auditor should document the work performed and the conclusions reached as to independence and objectivity. The documentation should indicate the auditor's conclusion as to whether the other auditors are independent and objective and the basis for that conclusion. The auditor should consult with the Reviewer if there are questions about the other auditors' independence or objectivity.

EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' QUALIFICATIONS

.25 After evaluating the other auditors' or specialists' independence and objectivity, the auditor should evaluate the other auditors' or specialists' qualifications to perform the specific tasks required. This involves evaluating the qualifications of the firm or audit organization and evaluating the qualifications of the specific audit team. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation.

.26 For CPA firms and specialists, qualifications are generally evaluated through the contracting process. The firm submits resumes for the audit team and demonstrates why its team is qualified to do the work. CPA firms should be asked to submit their latest peer review report (or inspection report specified by the Public Company Accounting Oversight Board), letter of comments, and response to the peer review report. The firm generally submits its plan for doing the work. The purpose of the technical evaluation panel under the contracting process is to select a qualified firm.

.27 Where the auditor did not participate in the contracting process, the auditor should consider how the qualifications of the firm were evaluated. For example, did the evaluation panel review resumes of the team; review the audit approach;

and read the peer review report, the related letter of comments, and the firm's response to the peer review report? The auditor should read these documents and reach a conclusion as to qualifications.

.28 For auditors other than CPA firms, the auditor should ask whether the audit organization had a peer review and the date of that review. IGs have peer reviews performed every 3 years by other IGs. Most state auditors also have peer reviews every 3 years. To comply with GAGAS, the audit organization should have a peer review every 3 years. The IIA standards indicate that, "[e]xternal assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.". While reviews under the IIA standard are not designed to report whether the audit organization's quality control adheres to GAGAS, they do provide evidence about whether the work adheres to a recognized set of professional standards. The auditor should read the peer review report, the letter of comments, and the audit organization's response. Where the audit organization has received an unqualified peer review report recently (usually less than 1 year ago), further review of the audit organization's qualifications is generally not required.

.29 Where the peer review report is not recent, the auditor also should review the results of the audit organization's internal inspection program. If the peer review is not recent, the inspection is important in highlighting new quality control issues. The inspection generally should include reviews of documentation, interviews of staff members, and tests of functional areas. Where the inspection is recent (usually within the past year) and the inspection report is unqualified, further review of the audit organization's qualifications is generally not required.

.30 Where the peer review or inspection report is qualified or adverse, the auditor should evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' work. The auditor may review the organization's action plan for improving quality controls. Inspection results are helpful in determining whether quality controls have improved since the peer review. The auditor should consider the effect of the remaining weaknesses in determining the nature and extent of procedures the auditor will perform.

.31 Where the peer review is not recent and there is no inspection program, the auditor generally should obtain an overview of the important policies and procedures in the functional areas:

- independence, integrity, and objectivity (see above);

- personnel management (includes recruiting and hiring, advancement, professional development and training, and assigning personnel to assignments);
- audit performance (includes supervision and consultation);
- acceptance and continuance of assignments; and
- monitoring programs.

.32 This information usually is obtained through interviews of the audit organization's management and staff and through reading the audit organization's quality control summary document, if one has been written. The auditor also may read the organization's manuals and other guidance for conducting audits.

.33 In addition to evaluating the audit organization's qualifications, the auditor also should evaluate the overall qualifications of the other auditors' team assigned to do the work. Reviewing resumes of key team members may accomplish this. The auditor should consider the specific education, training, certifications, and experience of key team members. In evaluating qualifications, the auditor should consider the specific role of staff members on the job. When the auditor has knowledge of qualifications from prior experience with key team members, the auditor should inquire about experience in the time since the last audit.

.34 Where the auditor is not fully satisfied as to the other auditors' qualifications, the auditor generally should perform a more detailed review of the documentation and/or perform supplemental tests of key line items (see paragraph 650.36). The auditor also may help the other auditors improve future audits.

.35 If the auditor has significant concerns about the other auditors' independence, objectivity, or qualifications, the auditor should revise the audit approach. For example, the auditor may:

- contract with another firm,
- ask the other auditors to substitute more highly qualified or objective staff members,
- do the audit without using the other auditors' work, treating any work done by the other auditors as prepared by the auditee,
- divide the work so that the other auditors test the areas where they are qualified, and the auditor does the rest of the audit, or
- issue a disclaimer of opinion.

PLANNING THE REVIEW AND TESTING OF THE OTHER AUDITORS' OR SPECIALISTS' WORK

.36 After evaluating the other auditors' or specialists' independence, objectivity, and qualifications, the auditor should develop a written plan for reviewing and, if necessary, testing the work done. This plan documents the level of review the auditor believes necessary. The level of review is high,[9] moderate, or low.[10] The plan should be reconsidered as the work progresses. The level of review is a judgment the auditor makes; this judgment generally should be made for each material line item and should consider the following factors:

a. The type of report or letter the auditor will issue (less review is needed for a transmittal letter than for reports in which the auditor takes responsibility for the other auditors' work). (See paragraph 650.10.)

b. Whether the other auditors issue a disclaimer of opinion because of a scope limitation (less work is needed to concur with a scope limitation than to concur with an unqualified opinion). (See paragraph 650.37.)

c. Whether the auditor's report might contain a disclaimer because of a scope limitation (less work is needed if the auditor's report will contain a scope limitation). (See paragraph 650.39.)

d. The other auditors' independence, objectivity, and integrity (both for the audit team and for the other audit organization) including whether the other audit organization is an independent auditor or an internal auditor (the level of review increases as independence, objectivity, and integrity decreases).

e. The other auditors' qualifications to perform the work the auditor wishes to use (both for the audit team and for the other audit organization) (the level of review increases as the other auditors' qualifications decrease).

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[9] Some situations may require significantly more work than the work shown for the high level. In those situations, the auditor generally should perform significant supplemental tests; in some cases, the audit may be a joint audit.

[10] In some situations, the auditor may decide less review or no review is necessary. These situations typically involve entities or line items that are very small in relation to the financial statements taken as a whole. In these situations the auditor may decide to read the other auditors' report and the financial statements and ask questions if anything seems unusual.

f. The auditors' prior experience with the other auditors (both for the audit team and for the other audit organization) (the level of review decreases as the auditor has favorable experience in working with the other auditors).

g. The materiality of the line item in relation to the financial statements the auditor is reporting on, taken as a whole (the level of review increases as the line item becomes more material).

h. The combined risk (combination of inherent risk and control risk) and the risk of material fraud for the line item and assertion in the financial statements the other auditors are auditing (the level of review increases as the combined risk and the risk of material fraud increase).

.37 If <u>the other auditors' work</u> had a scope limitation, this generally affects the level of review (except for transmittal letters with no assurance). If the other auditors disclaim an opinion on the financial statements because of a scope limitation, the auditor should issue a disclaimer of opinion (unless the financial statements the other auditors audited are not material to the financial statements the auditor is auditing). It will not take much review to be satisfied that the disclaimer is appropriate. Discussions with entity management and/or supplemental tests are not required in this situation, and the review of documentation may be limited to summary documentation. Thus, the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor plan future audits, or to help management correct the causes of the scope limitation.

.38 If the other auditors' work had a scope limitation that results in a qualified opinion, this generally needs a moderate or high level of review to determine whether the other auditors should have disclaimed an opinion and that the only issues are those relating to the qualification.

.39 A scope limitation <u>on the auditor's work that results in a disclaimer</u> also may affect the level of review. Since the auditor has already decided that not enough work can be done on the overall financial statements, no amount of review of the other auditors' work is likely to change that conclusion. Thus, as in the situation above, discussions with entity management and/or supplemental tests are not required, the review of the other auditors' documentation may be limited to summary documentation, and the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor plan future audits, or to help management correct the causes of the scope limitation.

.40 A scope limitation on the auditor's work that results in a qualified opinion needs a similar amount of work as an unqualified opinion.

.41 Section 650 A illustrates the work that generally should be performed for each level of review for each significant line item as well as what to retain in the documentation.

REVIEW OF DOCUMENTATION

.42 The extent of the auditor's review of the other auditors' or specialists' documentation depends on the level of review and is a judgment based on the factors in paragraph 650.36. For the low level of review, the review of documentation may be limited to key summary planning and completion documentation. For the moderate level, the auditor generally should review more of the other auditors' or specialists' documentation, especially those evidencing important decisions. For financial statement audits, these include the General Risk Analysis (GRA) or audit plan or equivalent documents; the Account Risk Analysis (ARA) (or equivalent documentation) for significant accounts; the Specific Control Evaluations (SCE) (or equivalent documentation) for significant applications; the documentation for high-risk accounts, estimates, and judgments; the analytical procedures; the audit completion checklist (or equivalent documentation); the audit summary memorandum; and the summary of possible adjustments. For the high level of review, the auditor generally should review all of the items for the moderate level of review plus the important detailed documentation.

DISCUSSIONS AND/OR SUPPLEMENTAL TESTS WHERE LEVEL OF REVIEW IS HIGH

.43 AU 543.13 states: "In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with management personnel of the component whose financial statements are being audited by other auditors and/or to make supplemental tests of such accounts." "In some circumstances" is interpreted to mean when the level of review is high. Thus, where the level of review is high, the auditor should (1) review audit documentation and (2)hold discussions with auditee management and/or perform tests of original documents. The objective of these additional procedures is for the auditor to obtain additional evidence about whether key items are properly handled and well supported. For example, the auditor generally should discuss key items with auditee management, especially estimates and judgments; this discussion generally should be with the other auditors present. The auditor generally should attend the entrance and exit conferences and other key meetings held by other auditors or specialists. The auditor should consider that for key items that are high risk, discussions with management may not provide sufficient evidence and supplemental tests may need to be performed.

.44 Supplemental tests may be a selection of the other auditors' work, additional tests of the accounting records, or both. To perform supplemental tests, the auditor should have access to the entity's personnel and their books and records. The auditor may coordinate access to the entity's personnel and records through the other auditor. The auditor and the other auditor also may jointly perform parts of a test, where the sample is planned jointly and the results are evaluated jointly. Although supplemental tests are usually performed only when the level of review is high, the auditor may decide to perform supplemental tests in other situations to learn about the entity, to help the other auditor plan future audits, or to help management correct problems.

.45 Where the other auditor is an internal auditor, the auditor should perform supplemental tests. Accordingly, for internal auditors, supplemental tests generally should be of greater scope (see AU 322.26).

.46 The auditor generally should limit discussions with entity management and/or supplemental tests to line items that are both high combined risk and material to the financial statements the auditor is reporting on, especially in areas involving estimates and judgments or in areas on which users place extensive reliance. The auditor's supplemental tests generally should include some items that the other auditor tested that appear to be exceptions to determine whether they were appropriately considered in formulating an opinion. The auditor should consider performing supplemental tests while the other auditors are at the auditee location and have access to records; this can minimize the inconvenience to the auditee.

.47 It is not necessary to perform supplemental tests of the work of specialists. As indicated in AU 336.12, the auditor should understand the methods and assumptions used by the specialists, test the data provided to the specialists (extent of testing is based on risk and materiality), and evaluate whether the specialists' findings support the financial statement assertions. If the auditor believes the findings are unreasonable, the auditor should apply additional procedures and/or consider the need to obtain another specialist.

SUBSEQUENT EVENTS REVIEW AND DATING OF THE AUDITOR'S REPORT

.48 The auditor's report should be dated when the auditor completes fieldwork. If the other auditors' or specialists' report is dated earlier and the auditor's report does not mention the other auditors' report or concurs with the other auditors' report (example 2 of section 650 C), the subsequent events review should be updated to the date of the auditor's report. The auditor may ask the other auditors to update the subsequent events work to the required date, or the auditor may update the subsequent events review. Since this requires additional work, the auditor should attempt to complete fieldwork when the other auditors complete fieldwork. This issue should be considered in planning. It is not necessary to update the subsequent events review when the auditor issues a transmittal letter (example 1 of section 650 C).

STAFFING THE REVIEW OF THE OTHER AUDITORS' OR SPECIALISTS' WORK

.49 When staffing the review, the auditor should consider that the other auditors or specialists may already have reviewed the work at several levels. The auditor's staff reviewing the work generally should have enough experience in financial statement auditing to understand the judgments that need to be made and to interact with the higher levels of the other audit organization. Most of the review generally should be done by or under the direction of an assistant director or a manager who has significant experience in performing and reviewing financial statement audit work. Supplemental tests may be done by less experienced staff members and supervised by an assistant director or an experienced audit manager. Primary review of the experienced audit manager's or assistant director's documentation should be performed by the audit director or an assistant director designated by the audit director. However, the assistant director or audit manager should review the documentation of supplemental tests performed by the less experienced staff members. Because of the high level of financial statement auditing experience of staff members doing and reviewing this work, secondary review should be performed only in very high-risk situations.

.50 When the other auditors' work involves the review of computer controls, an information systems auditor in a management role generally should do the auditor's review. An audit assistant director should review the information systems auditor's documentation to determine that related audit objectives were achieved.

EVALUATING THE WORK

.51 After the auditor has completed the review of the other auditors' work, and, if necessary, the supplemental testing, the auditor should determine whether the work is sufficient and acceptable for the auditors' use. The auditor should summarize the evaluation in the audit summary memorandum.

.52 Sometimes, the other auditors use methodologies or audit approaches that are different from those the auditor would have used. The auditor should recognize that auditing requires a great deal of professional judgment and that there often are alternative ways to achieve audit objectives. Thus, the auditor should first understand the basis for the nature, timing, and extent of the other auditors' procedures. The auditor should evaluate whether sufficient evidence has been obtained to meet the auditor's objectives; usually the auditor should consider materiality and combined risk for the particular line item in this evaluation. If the auditor has concerns about whether the other auditors' work provides sufficient evidence, the auditor should discuss the matter with the audit director and the Reviewer before formally discussing the issue with the other auditors.

.53 The auditor should consider the significance of the test results to the audit of the financial statements the auditor is reporting on. As an example, the other auditors might have selected a nonstatistical sample and/or the sample size might be smaller than the sample size the auditor would have selected. The auditor might decide that this provides sufficient evidence in an area that is less material or is not risky. However, if the area is material or risk is high, the auditor might conclude that sufficient evidence has not been obtained and that additional work is needed. In this case, after consulting with the audit director and the Reviewer, the auditor generally should either ask the other auditors to perform additional tests or perform the additional tests; if the additional testing is not done, the auditor should consider the effect of this scope limitation on the auditor's report. Since reaching this conclusion after the work is performed is inefficient, when the level of review is high, the auditor generally should coordinate or concur with major planning decisions before audit work is started.

.54 Sometimes, the auditor may disagree with the conclusions or judgments of the other auditors. In this case, the auditor should consider the other auditors' work as well as any other evidence necessary to determine the appropriate conclusion.

.55 The auditor should then discuss the issue with the other auditors to attempt to resolve the disagreement. It is important to attempt to resolve disagreements to reduce confusion that may arise from differing auditor views. In planning the audit, the auditor should try to identify potential disagreements early. Once identified, the auditor should discuss the issues with the other auditors as early as possible so that they can be resolved timely.

.56 If the auditor does not reach agreement with the other auditors, the auditor should consider how to report. For very material disagreements, the auditor may decide not to transmit the other auditors' report, instead issuing a disclaimer of opinion due to a scope limitation or doing additional work, if necessary, to issue an appropriate opinion. In less material disagreements, the auditor may transmit the other auditors' report, issue the transmittal letter or report, and describe the disagreement and the basis for the auditor's conclusions.

DOCUMENTING THE REVIEW OF OTHER AUDITORS' OR SPECIALISTS' WORK

.57 Regardless of the type of reporting or the level of review, the auditor's documentation should contain the items listed in section 650 A under "documentation."

.58 In addition, where the auditor performs supplemental tests of the accounting records, the auditor's documentation should contain a description of the work (this may be a list of the documents the auditor examined or tick marks on a copy of the other auditors' documentation if that is the basis for the selection) and the auditor's conclusion. It is not necessary to retain copies of the documents examined.

.59 It is important to distinguish between the auditor's responsibilities to review the documentation of other auditors versus what the auditor might copy and retain from that documentation. The auditor should use judgment in deciding which of the other auditors' or specialists' documents to copy and retain. Copies of documents readily available from the other auditors or the auditee (such as invoices and contracts) need not be retained. Section 650 A indicates what documentation the auditor generally should retain.

.60 The auditor may decide to retain other documentation if it might be useful in understanding the entity, training staff members, planning future audits, reviewing the documentation, or writing the report. Documentation in this category includes the entity profile (or equivalent), the general risk analysis or audit plan, the audit programs, the ARA and SCE forms (or equivalent), the trial balance or lead schedules, the management representation letter, and the attorney representation letter. Auditors often find it helpful to keep copies of documents in case questions are raised in review but not to include those copies in the documentation unless they are needed to document the work performed. Documents should not be retained if they are no longer needed. The audit plan or audit program may indicate which documents to retain.

USING INTERNAL AUDIT STAFF TO PROVIDE DIRECT ASSISTANCE TO THE AUDITOR

.61 Sometimes the auditor or the auditee requests that internal auditors provide direct assistance to the auditor. Before this is done, the auditor should be satisfied with the independence, objectivity, and qualifications of the staff assigned to do the work requested. AU 322.27 indicates that in these situations "the auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of procedures.... The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention." The auditor should direct, review, test, and evaluate the work done by internal auditors to the extent appropriate based on the auditor's evaluation of risk, materiality, objectivity, and qualifications.

USING AGENCY SPECIALISTS

.62 Many agencies have actuaries, security specialists, statistical specialists, and other specialists whose work the auditor would like to use. Unless these specialists are part of an organization that is organizationally independent or under contract to such an organization, the auditor should evaluate their work as the work of any auditee employee. The auditor generally should use specialists in the audit organization or contract for outside specialists to develop and implement appropriate tests.

MULTIPLE LEVELS OF OTHER AUDITORS

.63 Sometimes there are several levels of other auditors. For example, the IG might hire a CPA firm to do an audit. The IG may issue a report concurring with the CPA's report or a letter transmitting the CPA's report; GAO may then use the work of the IG.

.64 In these situations, each audit organization should follow the guidance in section 650. The IG should evaluate the independence (see paragraphs 650.11-. 24) and qualifications of the other auditors (see paragraphs 650.25-. 35), should review the audit documentation (see paragraph 650.42), and may need to have discussions with entity management and/or perform supplemental tests of key accounts (see paragraphs 650.43-. 47) (depending on the level of review deemed appropriate). GAO should evaluate the qualifications of the IG organization (by reading the peer review report, the letter of comments, and the audit organization's response as described in paragraph 650.25) and the team doing the monitoring, should review the IG's documentation, and may perform supplemental tests. When GAO finds that the IG has done and documented adequate work including discussions with management and/or supplemental tests, GAO's discussions and/or supplemental tests would be quite limited—perhaps a walk-through of work done in high-risk and material areas. Often, GAO may attend fewer meetings than the IG staff attends and would concentrate the review on the IG's documentation. GAO may then issue a report on the financial statements.

.65 Because of the potential for inefficiency, there should be close coordination between the various auditors. The IG and GAO may perform the review jointly. Sometimes, a memorandum of understanding might be useful in documenting responsibilities. A chart that describes the review to be done by each organization may be useful. The following is a useful format for this chart (with more detail added as necessary under each phase):

	Procedures		
Phase	Other auditor	IG review	GAO review
Planning			
Internal control			
Testing			
Reporting			

REPORTS ON OTHER AUDITORS' WORK

.66 The auditor may be asked to issue a report evaluating work done by other auditors in a situation where the auditor is not using the work of the other auditors. For example, the auditor might be asked to evaluate an audit done by a CPA firm. While AU 543, 322, and 336 are not directed towards these situations, the guidance in FAM 650 is helpful in planning and reporting on these assignments.

650 A - SUMMARY OF AUDIT PROCEDURES AND DOCUMENTATION FOR REVIEW OF OTHER AUDITORS' WORK

.01 The table in this section indicates the work that generally should be performed for each level of review, as well as what generally should be retained in the documentation. The table does not include work on other auditor's independence, objectivity, and qualifications. (See paragraphs 650.11-.35 for a discussion of that work.) Where the other auditor uses equivalent documents, review those documents.

.02 In the table, steps to be performed and documents to be retained at the low level of review are indicated by regular font. The moderate level of review includes the low level plus those in **bold letters.** The high level of review includes the moderate level plus those in **BOLD CAPITALS.**

AUDIT PROCEDURES	
At entity level	For significant line items, accounts, or applications

- Communicate with the other auditors:
  - as to the objectives of the work
  - **discuss their procedures and results**
- **Attend key entrance and exit meetings**
- **COORDINATE OR CONCUR IN SIGNIFICANT PLANNING DECISIONS BEFORE MAJOR WORK IS STARTED**
- Review:
  - general risk analysis
  - audit plan
  - scope of work
  - audit summary memorandum
  - summary of unadjusted misstatements
  - analytical procedures
  - completion checklist
  - **determination of planning and design materiality**
  - **information systems background**
  - **general and application controls documentation (done by information systems auditor)**
  - **representation letters**
  - **key documentation**
- Read:
  - other auditor's report
  - financial statements and notes
  - stewardship report and required supplementary information
  - other accompanying information
  - management's response
	- Review:
	  - audit program
	  - conclusions about significant issues and their resolution (often in audit summary)
	  - **account risk analysis (ARA)**
	  - **specific control evaluations (SCE)**
	  - **cycle memo**
	  - **flowcharts**
	  - **determination of test materiality**
	  - **sampling plan**
	  - **other auditors' key documentation**
	  - **documentation for high-risk accounts, estimates, and judgments**
	  - **analytical procedures**
	  - **evaluation of sample results**
	  - **summary of possible adjustments**
	- **PARTICIPATE IN DISCUSSIONS WITH MANAGEMENT PERSONNEL AND/OR PERFORM SUPPLEMENTAL TESTS OF THE LINE ITEMS (ESPECIALLY KEY ITEMS, ESTIMATES AND JUDGMENTS); COMPARE CONCLUSIONS**

DOCUMENTATION	
Retain	Optional
Auditor prepared: - audit plan - audit program **- memo documenting entrance and exit conference** **- MEMOS DOCUMENTING KEY MEETINGS ATTENDED AND DISCUSSIONS WITH AUDITEE MANAGEMENT** **- results of review of documentation** **- SUPPLEMENTAL TEST DOCUMENTATION** - summary memo Other auditor prepared: At entity level: - other auditor's report - final financial statements and notes - stewardship report - management letter - other auditor's unadjusted misstatements, estimate of the imprecision of audit procedures, and comparison with materiality - audit completion checklist - other auditor's audit summary memo At line item level: - documentation that supports exceptions **- other auditor's documentation evidencing significant judgments and conclusions**	- entity profile - general risk analysis - other auditor's audit plan - other auditor's audit program **- account risk analyses** **- specific control evaluations** **- sampling plan** **- trial balance** **- lead schedules** **- evaluation of sample results** **- management representation letter** **- legal representation letter**

650 B - EXAMPLE AUDIT PROCEDURES FOR USING THE WORK OF OTHERS

This program is appropriate when using the work of other auditors or the work of specialists to perform a full or partial audit of financial statements. The steps should be tailored to the circumstances and the planned level of review by deleting inapplicable steps, modifying the steps, and adding additional steps. When the other auditors or specialists have done only part of an audit, many of the steps below may be deleted. Many of the steps also may be deleted for the low level of review or when the auditor plans to issue a transmittal letter. The program consists of three sections: evaluating independence, objectivity, and qualifications for CPA firms and specialists; evaluating independence, objectivity, and qualifications for government auditors; and monitoring the work (for all types of other auditors and for specialists). The auditor generally should use one of the first two sections and the third section. A separate form generally should be used for each other auditor or specialist.

Entity:____

Job code:____

Period of audit:____

Step	Done by/date	W/P ref
EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR CPA FIRMS AND SPECIALISTS		
1. Read the statement of work or request for proposal to determine whether this contracting document provides sufficient background on the auditee and indicates the objectives of the work, what the contractor should include in its proposal, how proposals will be evaluated, and how the report will be used.		

Step	**Done by/date**	**W/P ref**
<u>Independence and objectivity</u>: 2. Determine whether proposal of selected firm includes a representation as to the firm's independence and objectivity.		
3. If proposal does not include a representation as to independence and objectivity, obtain written representation from firm.		
<u>Qualifications</u>: 4. Read proposal of selected firm. In reviewing proposal, evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members their educational level, professional certifications, and professional experience (including whether key team members have current knowledge and experience in the type of work done).		
5. If the auditor does not know the qualifications of the selected firm, review peer review report, letter of comments, and response letter.		
6. Communicate orally or in writing with the other auditors to be satisfied that they understand the requirements, the timetable, and the report or letter the auditor expects to issue.		

Step	**Done by/date**	**W/P ref**
EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR GOVERNMENT AUDITORS <u>Independence and objectivity</u>: 1. For all government audit organizations, obtain written representation from the head of the audit organization that the audit organization and the individual auditors are independent of the entity being audited.		
2. Determine whether the audit organization meets ONE of the criteria in paragraph 650.15, or the head meets ONE of the criteria in paragraph 650.16. If the organization (or its head) meets one of these criteria, no further work is needed unless the auditor finds contrary evidence as to independence and objectivity in other parts of the audit. Indicate which criterion is met; document the evaluation of any other evidence obtained. (Go to step 6.)		
3. If the audit organization (or its head) does not meet any of the criteria in step 2, determine whether it meets ALL of the criteria in paragraph 650.18.		
4. Review the audit organization's documentation of how it meets the requirements of step 3. Discuss with head of audit organization (consider discussing with external quality control reviewer, legal counsel for audit organization, and auditor's legal counsel). (Go to step 6.)		

Step	Done by/date	W/P ref
5. If the audit organization does not meet the criteria for organizational independence to report externally, determine whether the organization is an independent internal audit organization under GAGAS and IIA standards. Determine whether the internal auditors are objective for the activities they audit. Consider the organizational status of the head of the audit organization, including whether the head • is accountable to the head or deputy head of the government entity, • is required to report the results of the audit organization's work to the head or deputy head of the government entity, and • is located organizationally outside the staff or line management function of the unit under audit.		
6. For all government audit organizations, obtain an understanding of organization's policies to enhance the objectivity of individual auditors, including • policies to prohibit auditors from auditing areas where relatives are employed, • policies to prohibit auditors from auditing areas where they were recently assigned or are scheduled to be assigned after they complete their tour of duty in auditing, and • policies to require representations as to objectivity and lack of conflicts of interest from each auditor.		
7. Prepare memorandum documenting work performed and conclusions as to independence and objectivity.		

Step	Done by/date	W/P ref
Qualifications: 8. Read the latest peer review report, letter of comments, and the audit organization's response. Note date of report and whether it is unqualified. If report is recent (usually within the past year) and unqualified, go to step 12.		
9. If the peer review is not recent, review the latest inspection report, if any, and the organization's response. Note date of report and whether it is unqualified. If the inspection is recent (usually within the past year) and unqualified, go to step 12.		
10. If the organization has not had a recent peer review or inspection, obtain an overview of the important policies and procedures in the functional areas (through interviews of management and staff and through reading the summary quality control document, if any). Consult with Reviewer before performing this step.		
11. If the peer review or inspection report was qualified or adverse, determine whether the quality control system has since been strengthened. Review the organization's action plan for strengthening its quality control system. Consider the effect of remaining weaknesses in determining the level of review.		

Step	Done by/date	W/P ref
12. Inquire how the audit organization determined the staffing for the audit. Evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members: • educational level, professional certifications, and professional experience; • continuing professional education, especially whether key team members have received training and have current knowledge in the type of work done; • supervision and review of work; • whether the audit team has adequate sources for consultation and use of specialists, especially for audit sampling, audit methodology, and review of computer controls; and • quality of documentation, reports, and recommendations.		
13. If the auditor has significant concerns about the audit organization's or team's objectivity or qualifications, the auditor, in developing the audit plan, may either • ask the audit organization to substitute more objective or highly qualified staff members; • do the work, treating any work done by the other auditors as prepared by the auditee; • divide the work so that the other auditors test the areas where they are qualified and the auditor does the rest of the audit; or • issue a disclaimer of opinion.		

Step	Done by/date	W/P ref
MONITORING THE WORK (FOR ALL TYPES OF OTHER AUDITORS AND FOR SPECIALISTS) 1. Develop a plan for reviewing the other auditors' or specialists' work and, if necessary, performing supplemental tests of the accounting records. Determine the level of review for each line item.		
2. Monitor the planning of the audit (FOR MODERATE AND HIGH LEVEL OF REVIEW). • Attend entrance meeting and key planning meetings. • Review the entity profile. • Review the General Risk Analysis or equivalent document (and audit plan if prepared as a separate document) (FOR ALL LEVELS OF REVIEW). • Review the determination of planning materiality and design materiality. • Have an information systems auditor review the information resource management background information and the documentation for review of general and application controls. • Document line items and applications to be reviewed. • For each such line item, review the Account Risk Analyses, the Specific Control Analyses, the cycle flowcharts, the cycle memoranda, the determination of test materiality, and the audit program or equivalent documents.		

Step	Done by/date	W/P ref
3. Monitor the execution of the audit (for reports following example 2 of section 650 C or section 595 A and/or B WHERE LEVEL OF REVIEW IS HIGH). • Attend key meetings, especially those discussing high-risk areas, significant estimates and judgments, and the other auditors' conclusions. • Discuss key items with auditee management, especially significant estimates and judgments. • Perform supplemental tests of the accounting records. •• Generally do for high risk and material line items, especially in areas involving estimates and judgments or ones that users rely on extensively. •• Generally do while the other auditors are at the auditee location and have access to the records. •• Examine some of the same documents the other auditors examined or make own selection or both. •• Compare results of other auditors' work to results of supplemental tests. •• Document scope of supplemental testing and conclusions reached.		

Step	Done by/date	W/P ref
4. Monitor the completion of the audit (items with * are usually not necessary for LOW level of review) • Review the overall analytical procedures. • *Review the key documentation for the line item and for completing the audit; consider evaluations of sample results. (For example, were projections appropriate? Was appropriate action taken based on sample results?) • *Determine whether the subsequent events review was updated to the date of the auditor's report. • Review the audit summary memorandum, conclusions about line items, and summary of possible adjustments. • Review the audit completion checklist (or equivalent document). • Review the management representation letter and the legal representation letter. • *Attend key exit conference(s). • Read the other auditors' report, the financial statements, the notes, the other accompanying information, and management's response.		
5. Prepare summary memorandum.		
6. Write the auditor's report or transmittal letter.		

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650 C - EXAMPLE REPORTS WHEN USING THE WORK OF OTHERS

EXAMPLE 1 – TRANSMITTAL LETTER

We contracted with the independent certified public accounting firm of [name of firm] to audit the financial statements of [name of entity] as of [date] and for the year then ended. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In its audit of [name of entity], [name of CPA firm] found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [entity] had effective[1] internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied[2] with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

[Name of CPA firm] also described the following significant matters:

[Discuss significant matters].

[1] If the other auditors did not provide an opinion on internal control, change this to "there were no material weaknesses in internal control" (and include a definition of material weakness in a footnote).

[2] If the other auditors did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems complied with FFMIA, change this to "no instances in which entity's financial management systems did not substantially comply" (i.e., negative assurance).

[For transmittal letters expressing no assurance, use the following paragraph:]

[Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. We do not express opinions on [name of entity]'s financial statements or internal control or on whether [entity]'s financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

[For transmittal letters expressing negative assurance, use the following paragraph:]

In connection with the contract, we reviewed [name of CPA firm]'s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on [name of entity]'s financial statements or internal control[3] or on whether [entity]'s financial management systems substantially complied with FFMIA;[4] or conclusions on compliance with laws and regulations. [Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. However, our review disclosed no instances where [name of CPA firm] did not comply, in all material respects, with U.S. generally accepted government auditing standards.[5]

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3 If the other auditors did not provide an opinion on internal control, change this to read "conclusions about the effectiveness of internal control."

4 If the other auditors did not provide an opinion on FFMIA, change "opinion" to "conclusions."

5 If the auditor found that the other auditors did not comply with GAGAS, or if the auditor disagrees with the other auditors' conclusions, see paragraphs 650.54-.56.

EXAMPLE 2 – REPORT CONCURRING WITH OTHER AUDITORS' OPINION (PRESENTING REPORT OF OTHER AUDITORS AFTER THE AUDITOR'S REPORT)[6]

Under [citation of statute], we are responsible for auditing [name of entity]. To help fulfill these responsibilities, we contracted with [name of firm], an independent certified public accounting firm. [Name of firm]'s report dated [date] is attached.

We concur[7] with [name of firm]'s report that indicated:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,

- [entity] had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,

- [entity's] financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and

- no reportable noncompliance with laws and regulations it tested.

Details of their conclusions are in their report.

<u>OBJECTIVES, SCOPE, AND METHODOLOGY</u>

Management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (c), (d) (Federal Managers' Financial Integrity Act) are met, (3) ensuring that [entity]'s financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

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[6] This example assumes the other auditors opined on internal control and on whether the financial management systems substantially complied with FFMIA. If the other auditors provided negative assurance, appropriate changes should be made.

[7] If the auditor does not concur with the other auditors' report, see paragraphs 650.54-.56.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing whether [entity's] financial management systems substantially comply with the three FFMIA requirements, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Accountability Report.

To help fulfill these responsibilities, we contracted with the independent certified public accounting (CPA) firm of [name of firm] to perform a financial statement audit in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of the CPA firm, met with partners and staff members, evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with U.S. generally accepted government auditing standards.

660 – AGREED-UPON PROCEDURES

.01 In an engagement to apply agreed-upon procedures, a client engages an auditor to perform specific procedures on subject matter and report on the results to assist users in evaluating subject matter or an assertion. Agreed-upon procedures should be performed in accordance with the Statements on Standards for Attestation Engagements (SSAE). The auditor should read appropriate sections (e.g., AT 101, *Attest Engagements*, and AT 201, *Agreed-Upon Procedures Engagements*) and thoroughly understand them before performing agreed-upon procedures.

.02 An agreed-upon procedures engagement may be applied to a variety of subject matter. The engagement will vary depending on the needs of the user. The engagement may assist entity management by providing information for making decisions and give report users information on important areas. Examples of agreed-upon procedures are:

- compare payroll information reported to the Office of Personnel Management with the entity's payroll records and general ledger;
- compare entity reconciliations of intragovernmental activity and balances with supporting documentation and compare amounts with the financial statements and with reports to the Department of the Treasury (Treasury);
- trace tax collections from the master file to deposit confirmations, determine whether they were recorded in the appropriate period and in the correct tax class;
- trace amounts on the entity's financial statements to an "account grouping worksheet," foot the worksheet, read the CFO's explanation for any differences, and compare the explanation with supporting documentation; and
- examine official receipt documents to determine whether they were included in the weekly deposit; compare deposit amounts to amounts reported on the statement of funding.

.03 In agreed-upon procedures engagements, all parties involved, which include the report users, the entity responsible for the subject matter (which may or may not be the same as the user), and the auditor, should clearly understand the procedures to be applied. Since users may have different needs, the nature, timing, and extent of the agreed-upon procedures also may differ. Therefore, the users, and not the auditor, assume the responsibility for the sufficiency of the design and extent of the procedures since they best understand their own needs, although the auditor may assist the user in designing the procedures.

.04 The auditor should establish and document an understanding with the users regarding the nature, timing, and extent of the agreed-upon procedures to be performed. The auditor may document this understanding using an engagement letter to the users. (See example in section 660 A.)

.05 The subject matter should be capable of evaluation against criteria that are suitable and available to users. Suitable criteria should have objectivity, measurability, completeness, and relevance. The procedures should be subject to reasonably consistent measurement and the criteria should be agreed upon. The auditor should not perform overly subjective procedures or use terms with uncertain meaning unless they are defined within the agreed-upon procedures.

.06 The auditor need not perform additional procedures beyond the agreed-upon procedures. If matters come to the auditor's attention by other means that significantly contradict the subject matter (or assertion), the auditor should include these matters in the report. For example, if during the course of applying agreed-upon procedures regarding an entity's operation, the auditor becomes aware of a material weakness related to the assertion by means other than the agreed-upon procedures, the auditor should include this matter in the report. This may be done by mentioning the material weakness with a footnote reference to another report where it is described in detail.

.07 Where circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor should attempt to obtain agreement from the users of the report to modify the agreed-upon procedures. When agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the auditor should describe restrictions in the report or withdraw from the engagement.

WRITTEN REPRESENTATIONS

.08 The auditor should determine if a representation letter is necessary. The auditor may determine that a representation letter is necessary, for example, if (1) the responsible entity is so large there is a risk as to whether one person knows whether pertinent information has been made available to the auditor, (2) the subject matter depends on estimates, judgments, or future events (i.e., whether the subject matter is less objective and fact-based and more subjective), or (3) the user of the report believes written representations should be obtained. Although generally not required (unless specifically required by another attestation standard, such as in a compliance engagement) a representation letter may nonetheless be a useful means of documenting the responsible entity's representations. (See FAM section 660 B for an example representation letter for an agreed-upon procedures engagement.)

.09 The responsible entity's refusal to furnish written representations determined by the auditor to be necessary constitutes a scope limitation. In such circumstances, the auditor should do one of the following:

- disclose in the report the inability to obtain representations from the responsible entity,
- withdraw from the engagement, or
- change the engagement to another form of engagement (e.g., a performance audit).

DOCUMENTATION

.10 In accordance with GAGAS, the auditor should prepare and maintain documentation in connection with an agreed-upon procedures engagement that is appropriate for the engagement. They should contain sufficient information to enable an experienced auditor having no previous connection with the engagement to ascertain from them the evidence that supports the auditors' agreed-upon procedures report.

.11 Although the quantity, type, and content of documentation varies with the circumstances, ordinarily it should be sufficient to demonstrate that the work was adequately planned and supervised and sufficient evidential matter was obtained to provide a reasonable basis for the report.

.12 The auditor generally should prepare a summary memorandum that recaps the work performed and refers to the detailed documentation. This memorandum generally should include the auditor's conclusion on whether the work was performed in accordance with GAGAS, including the attestation standards, and the GAO/PCIE FAM and whether the report is appropriate. (See FAM section 660 C for an agreed-upon procedures completion checklist.)

REPORTING

.13 An auditor should report on the agreed-upon procedures in the form of results. The auditor should not provide any opinion or negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. The report should include information such as the identification of the entities that agreed to the procedures and took responsibility for the sufficiency of the design and extent of the procedures for their purposes, as shown in the example report in FAM section 660 D.

.14 The auditor should report all results arising from application of the agreed-upon procedures. The concept of materiality does not apply to results to be reported in an agreed-upon procedures engagement unless the users of the report agree to the definition of materiality. This could be included in the engagement letter. Any agreed-upon materiality limits should be described in the report.

.15 The auditor should include a statement indicating that the report is intended for the specified users who have agreed upon the procedures performed and taken responsibility for the sufficiency of the design and extent of the procedures for their needs. However, since governmental reports are generally a matter of public record, the distribution of the report is not limited.

.16 The auditor may have performed agreed-upon procedures on an element, account, or item of financial statements and also audited the same financial statements. If the audit report on the financial statements includes a departure from a standard report, the auditor generally should include a reference to the audit report and the departure from the standard report in the agreed-upon procedures report.

.17 The auditor also may include explanatory language about such matters as the following:

- stipulated facts, assumptions, or interpretations (including the source);
- description of the condition of records, controls, or data to which the procedures were applied;
- explanation that the auditor has no responsibility to update the report; or
- explanation of sampling risk.

.18 The auditor should state the results in definitive, rather than qualified, language and avoid vague or ambiguous language. The following table provides examples of appropriate and inappropriate descriptions of findings.

Examples of appropriate/inappropriate description of findings		
	Description of findings	
Procedures agreed-upon	**Appropriate**	**Inappropriate**
Based on the total tax liability, select and recompute the 50 largest excise tax returns from the quarter ended September 30 and compare these amounts with the certified audit file.	Recomputed amounts for the selected excise tax returns agreed with the amounts in the certified audit file.	Nothing came to our attention as a result of applying this procedure.
Select a random sample of 45 Treasury SF-224 reconciliations; determine if XYZ reported revenue receipts were properly classified and reconciled to Treasury FMS records.	Revenue receipts selected randomly from the monthly Treasury SF-224 reconciliation process were properly classified and agreed with Treasury FMS records.	The revenue receipts approximated the amount shown in the Treasury FMS records.
Examine personnel files of 40 individuals randomly selected from the timekeeping records for the year; determine if all the selected files contain a current and approved Notification of Personnel Action.	Thirty of the selected files contained a current and approved Notification of Personnel Action. Ten files did not contain a current and approved Notification of Personnel Action *(list and identify exceptions)*.	Some of the personnel files did not contain a current and approved Notification of Personnel Action.

Other Report Issues

.19 The report should be addressed to the users who have agreed upon the procedures to be performed (see paragraph 660.03). The date of completion of the agreed-upon procedures should be used as the date of the agreed-upon procedures report. If the audit organization's procedure is to date reports with the issue date, the date of completion of fieldwork may be stated in the report (e.g., "We completed the agreed-upon procedures on [date].").

.20 Agency comments should be obtained from the entity responsible for the subject matter. If time constraints present problems, oral comments may be obtained.

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660 A - EXAMPLE AGREED-UPON PROCEDURES ENGAGEMENT LETTER

[Date]

Management of ABC Agency

Subject: Fiscal Year 20X1 Agreed-Upon Procedures for the Tax Trust Fund

Dear Management Official:

Based on our discussions, we agree to perform agreed-upon procedures to assist ABC Agency in determining the completeness and accuracy of receipts transferred to the tax trust fund. XYZ Agency is responsible for the information to which these procedures will be applied.

This letter documents our agreement to perform these agreed-upon procedures related to fiscal year 20X1. We will perform these procedures in accordance with U.S. generally accepted government auditing standards, which incorporate the financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA). The procedures are included in the enclosure to this letter. We will meet with you as needed to discuss the agreed-upon procedures, results, and other issues that may arise.

We are not engaged to perform, and will not perform, an examination, the objective of which would be to express an opinion on the amount of receipts transferred to the tax trust fund. Accordingly, we will not express such an opinion. Were we to perform additional procedures, other matters might come to our attention that we would report to you.

Our report will be intended solely for your information and use and should not be used by those who have not agreed to the procedures or taken responsibility for the sufficiency of the procedures for their purposes. However, the report will be a matter of public record and its distribution will not be limited.

Unless we hear from you, we will assume your concurrence with these procedures and their sufficiency for your purposes.[1] Please contact me at [telephone number] if you or your staff have any questions.

Sincerely yours,

[Name of Director]
Director

Enclosure

cc: XYZ Agency

[1] The auditor may request the users to document their agreement with the procedures and their sufficiency for their purposes by signing the engagement letter and returning it to the auditor.

Agreed-Upon Procedures for Tax Receipts and Refunds

General

- Compare fiscal year 20X1 tax collections for the ABC tax trust fund per XYZ's Statement of Custodial Activity with
  - the trust fund's accounting records and
  - ABC's consolidated financial statements.
- Obtain explanations and examine supporting documentation for differences.

Sampling

A. Use dollar unit sampling (DUS) and an 80-percent confidence level to select a sample of ABC tax trust fund tax revenue receipts and refunds for fiscal year 20X1. Use $300 million as the test materiality, which is 1 percent of the total revenue collected. Use an expected aggregate misstatement of $100 million, or one-third of test materiality. The projected sample size for this population is expected to be 40 transactions.

For the sample items selected:

- Receipts testing — Compare tax receipts transactions (for example cash receipts, federal tax deposit (FTD) receipts, reversals, and adjustments) with source documents to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund receipts.
- Refunds testing — Compare refund transactions with the source documents (for example, payment vouchers, FTD coupons, tax returns) to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund refunds.

B. Use DUS and the same sampling parameters as above to extract statistical samples of total XYZ revenue receipts and refunds for fiscal year 20X1.

For the sample items selected:

- Test whether the tax receipt or refund amounts and tax category from source documentation agrees with amounts recorded for each of the revenue receipts or refunds sample items.

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660 B - EXAMPLE REPRESENTATION LETTER FROM RESPONSIBLE ENTITY ON AGREED-UPON PROCEDURES ENGAGEMENT

[XYZ Agency letterhead]

[Date]

Dear Auditor:

In connection with the agreed-upon procedures engagement for XYZ's budget execution process for the period from October 1, 20X0 through September 30, 20X1, we confirm to the best of our knowledge and belief, the following representations made to you in performing these agreed-upon procedures.

- We acknowledge responsibility for XYZ's budget execution process.
- We acknowledge responsibility for selecting the criteria [state criteria] and for determining the appropriateness of the criteria for our purposes.
- Our budget execution process is [state assertion about budget execution process based on the criteria selected].
- We know of no matters that would contradict our assertion about our budget execution process.
- There have been no communications from regulatory or oversight agencies concerning our budget execution process or noncompliance with budgetary laws or the Antideficiency Act.
- We have made available to you all records and related data pertaining to our budget execution process during the period from October 1, 20X0 through September 30, 20X1.
- XYZ's budget execution process is designed to meet the requirements of the Antideficiency Act.
- The accounting records and fund status reports are checked quarterly to determine whether all source documents that affect the appropriation and fund balance have been recorded properly, accurately, and on a timely basis.

- The agency's accounting system provides timely disclosure of total valid obligations incurred to date and total budgetary resources available for obligations within each apportionment.

- The system also provides timely disclosure of the authorization or creation of commitments, obligations, or expenditures that exceed apportionments and allotments.

- We are not aware of instances of noncompliance with the above-stated procedures.

- There has been no fraud involving management, employees, or contractor staff who have significant roles in the operation of our budget execution process.

- We have no plans or intentions that would materially affect our budgetary process or operations.

Sincerely yours,

Management, XYZ Agency

660 C - AGREED-UPON PROCEDURES COMPLETION CHECKLIST

Entity:____

Job code:____

Principal report:______________________________________

.01 This checklist is a tool to help auditors comply with the requirements for agreed-upon procedures engagements. No specific signatures are required on the checklist in the planning phase.

.02 Several of the last questions include steps in GAO's quality control process, including the GAO workpaper set, second partner review, and review by the Technical Accounting and Auditing Expert (Chief Accountant at GAO) when that person is not the second partner. GAO auditors should complete these questions and forms. IG auditors and other auditors may use these questions and forms or may substitute questions and forms that consider their reporting style and quality control.

Step	N/A	Yes	No	W/P ref
1. Has the audit team documented an understanding with the users?				
2. Does the documentation cover the following? • The nature of the engagement. • Identification of the subject matter, the responsible entity, and the criteria. • Identification of the users of the report. • Auditor's responsibilities. • Reference to GAGAS and the attestation standards. • Agreement on procedures. • Disclaimers expected. • Any involvement of a specialist. • Materiality limits.				

Step	N/A	Yes	No	W/P ref
3. Was an entrance conference held with the responsible entity?				
4. Has the auditor determined whether a letter of representation from the responsible entity is necessary? (Note: This is not a requirement.)				
5. Were applicable laws and regulations documented if part of the procedures?				
6. Were review responsibilities communicated to individuals on the assignment?				
7. Does the documentation contain the following? a. The scope and methodology, including any sampling criteria used. b. Documentation of the work performed to support reported results. c. Descriptions of transactions and records examined. d. Evidence of supervisory review.				
8. Does the documentation record that the applicable standards were followed (AT 201 and AT 101)?				
9. Does the documentation record a reasonable basis for the results of the agreed-upon procedures?				
10. Does the summary memorandum summarize the results of the procedures and refer to the documentation?				

Step	N/A	Yes	No	W/P ref
11. Were any deviations from the standard reporting elements documented and the basis approved by the assistant director with copies of the documentation sent to the audit director and Reviewer (AT 201.31)?				
12. Was the report referenced?				
13. Did the assistant director review the following? a. Understanding with the client. b. Memorandum of entrance conference with the responsible entity. c. Completed work programs. d. Memorandums on key engagement issues. e. Summary of the results of the procedures. f. Memorandum of exit conference with the responsible entity. g. Deviations from standard reporting language. h. Financial schedules/statements. i. Agreed-upon procedures report. j. GAO workpaper set (or equivalent).				
14. Did the audit director review the following? a. Understanding with the client. b. Summary of results of the procedures. c. Memorandum of exit conference with responsible entity. d. Deviations from standard reporting language. e. Agreed-upon procedures report. f. GAO workpaper set (or equivalent).				
15. Did the assistant director or the auditor in charge determine that all significant review notes were resolved appropriately?				

Step	N/A	Yes	No	W/P ref
16. Did the assistant director initial all documentation bundle covers to indicate that all documentation was sufficiently reviewed?				
17. Is the report appropriate as to the following? a. Wording. b. Scope of work. c. GAGAS. d. Explanatory paragraphs.				
18. Was the report reviewed by the following? a. Office of the General Counsel. b. Technical Accounting and Auditing Expert. c. Second partner (or equivalent), if not Technical Accounting and Auditing Expert.				
19. Is the agreed-upon procedures report dated appropriately or does the report indicate when the auditor completed fieldwork? (AT 201)				

SECOND PARTNER'S (OR EQUIVALENT) CONCURRENCE ON AGREED-UPON PROCEDURES WORK

Objective of second partner (or equivalent) review: To objectively review significant engagement matters to conclude, based on all facts the second partner (or equivalent) has knowledge of, that no matters were found that caused the second partner (or equivalent) to believe that (1) the procedures were not performed in accordance with GAGAS, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants and (2) the report does not meet professional standards and audit organization policies.

Procedures: Before the report was issued, I performed the following procedures:

- as necessary, discussed significant engagement issues with the audit director;
- read documentation of key decisions and consultations;
- read the agreed-upon procedures report; and
- confirmed with the audit director that there are no unresolved issues.

Conclusions: Based on all the relevant facts of which I have knowledge, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies.

Title **Signature** **Date**

TECHNICAL ACCOUNTING AND AUDITING EXPERT'S CONCURRENCE ON AGREED-UPON PROCEDURES WORK
Objective of review: When the Technical Accounting and Auditing Expert is not the second partner (or equivalent), the Technical Accounting and Auditing Expert should read the report. The Technical Accounting and Auditing Expert should then sign the conclusions below. **Conclusions:** Based on my reading of the report, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies. **Title** **Signature** **Date**

660 D - EXAMPLE AGREED-UPON PROCEDURES REPORT

[Date]

Management of ABC Agency

Subject: Applying Agreed-Upon Procedures: Count of Cash and Related Items

Dear Management Official:

We have performed the procedures contained in the enclosure to this letter, which we agreed to perform and with which you concurred, solely to meet your needs for an independent count of cash and cash-related items as of September 30, 20X1.

We conducted our work in accordance with U.S generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

You are responsible for the adequacy of the procedures to meet your objectives and we make no representation in that respect. The procedures we agreed to perform consist of counting amounts for cash and related receipts and comparing combined totals to the authorized amounts. The enclosure contains the agreed-upon procedures and our results.

We were not engaged to perform, and did not perform, an examination, the objective of which would have been to express an opinion on the amount of cash on hand. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our agreed-upon procedures on [date of completion].

We provided a draft of this letter, along with the enclosure, to your representatives for review and comment. They agreed with the results presented in this letter and its enclosure.

This letter is intended solely for the use of the management of ABC Agency and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited.

If you have any questions, please call [name, title, and telephone number].

Sincerely yours,

[Name of Director]
Director

Enclosure

RESULTS OF CASH COUNTS

Procedures

We counted and totaled cash on hand for the petty cash fund as of [date]. We also listed and totaled the receipts on hand evidencing disbursements from the fund. Finally, we compared the combined total of cash and receipts available to the amount authorized for the fund ($500).

Results

We counted cash totaling $258.96 and scheduled 14 receipts totaling $174.85. The combined total of cash and receipts on hand accounted for $433.81 of the $500 in authorized petty cash funds. In addition, the custodian provided us two separate Expense Summary Report and Petty Cash Itemization Sheets and related receipts for an additional $65.09, which had been submitted for reimbursement to the fund. Thus, the unexplained difference between the authorized amount and the total cash and receipts evidencing petty cash fund disbursements was $1.10.

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SECTION 700

Internal Control

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701 – ASSESSING COMPLIANCE OF AGENCY SYSTEMS WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

.01 FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions and to ensure ongoing accountability. FFMIA requires the 24 CFO Act departments and agencies[1] to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level. The law also requires auditors to report whether agency financial management systems comply with the FFMIA requirements. OMB has provided FFMIA implementation guidance to help agencies and their auditors determine compliance. This section also provides guidance for assessing agency systems' compliance with FFMIA. It explains FFMIA's requirements and discusses audit issues related to testing for compliance with the act. An example audit program is included as section 701 A.

FFMIA REQUIREMENTS

.02 OMB Circular A-127, *Federal Financial Systems*,[2] also addresses the three FFMIA requirements. OMB Circular A-127 prescribes policies and standards for executive branch departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems (see www.whitehouse.gov/omb/financial). In its FFMIA implementation guidance, OMB identifies the applicable requirements from Circular A-127 that should be assessed when making an FFMIA compliance determination.[3] OMB, in Circular A-127, refers to the federal financial management systems requirements, a series of publications issued by the Joint Financial Management Improvement Program (JFMIP), as the source of governmentwide requirements for financial management systems software functionality. JFMIP has developed a framework to describe the basic elements of an integrated financial management system,

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1 OMB also requires certain designated entities to determine FFMIA compliance.

2 OMB is considering revising this guidance.

3 OMB did not include certain elements of Circular A-127, section 7, in its FFMIA implementation guidance because some of the elements are not essential to satisfying the requirements of FFMIA and to the ability of an agency's systems to provide reliable, timely, and useful information necessary for federal managers' responsibilities. Accordingly, those elements are not included in this section.

including the core financial system. Agency financial management systems fall into four categories: core financial systems, other financial and mixed systems[4] (such as procurement, property, budget, payroll, and travel systems), shared systems,[5] and departmental executive information systems (systems to provide information to all levels of management.)

.03 JFMIP has developed publications of systems requirements for the core financial system and for some of the mixed or feeder systems (see www.jfmip.gov). The systems requirements in the publications are stated as either mandatory (required) or value-added (optional). Agencies should use the mandatory functional and technical requirements in planning system improvement projects, whereas value-added requirements should be used as needed. The core financial management system affects all financial event transaction processing because it maintains reference tables used for editing and classifying data, controls transactions, and maintains security. The core financial management system consists of six functional areas: general ledger management, funds management, payment management, receivable management, cost management, and reporting. OMB Circular A-127 requires agencies to use for agency core financial management systems commercial-off-the-shelf (COTS) software that has been tested and certified through the JFMIP software certification process. According to JFMIP, core financial management system certification does not mean that agencies that install qualified software packages will have financial systems that are in compliance with FFMIA. Many other factors can affect the capability of the systems to comply with FFMIA, including modifications made to the JFMIP-certified core financial management system software, and the validity and completeness of data from feeder systems. JFMIP's certification process does not eliminate or significantly reduce the need for agencies to develop and conduct a comprehensive testing effort to ensure that the software product meets their requirements

.04 The federal accounting standards, the second requirement of FFMIA, are promulgated by the Federal Accounting Standards Advisory Board (FASAB). FASAB develops accounting standards after considering the financial and budgetary information needs of Congress, executive agencies, and other users of federal financial information as well as comments from the public (see www.fasab.gov). FAM section 560 describes the relationship of the FASAB standards to the hierarchy of accounting principles.

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4 Mixed systems are any information systems that support both financial and non-financial functions of the federal government. Mixed systems can also be feeder systems.

5 Shared systems are governmentwide systems used by agencies with information and data definitions common to all users.

.05 Implementing the SGL at the transaction level is also a requirement of FFMIA. The SGL provides a uniform chart of accounts and guidance for use in standardizing federal agency accounting and supports the preparation of standard external reports required by OMB and Treasury (see www.fms.treas.gov/ussgl). The SGL is defined in the latest supplement, which is released annually, to the Department of the Treasury's *Treasury Financial Manual (TFM)*. The supplement is composed of five major sections (1) chart of accounts, (2) account descriptions, (3) accounting transactions, (4) SGL attributes, and (5) report crosswalks. Each agency should implement a chart of accounts that is consistent with the SGL and meets the agency's information needs. OMB Circular A-127 states that application of the SGL at the transaction level means that financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL. Transaction detail supporting SGL accounts are required to be available in the financial management systems and directly traceable to specific SGL account codes. In addition, the criteria for recording financial events in all financial management systems should be consistent with accounting transaction definitions and processing rules defined in the SGL.

.06 OMB's FFMIA implementation guidance requires the CFO act agency auditors to perform tests of the compliance of the entity's systems with FFMIA. Auditors who are reporting that agency financial management systems do not substantially comply with FFMIA requirements are to include in their reports (1) the entity or organization responsible for the financial management systems that have been found not to be substantially compliant and all pertinent facts relating to the noncompliance, (2) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance, (3) the primary reason or cause of the noncompliance, (4) the entity or organization responsible for the noncompliance, (5) any relevant comments from any responsible officer or employee, and (6) a statement with respect to the recommended remedial actions for each instance of noncompliance and the time frames for implementing these actions. FFMIA as well as OMB's FFMIA implementation guidance require agencies to report whether the agencies' financial management systems comply with FFMIA's requirements and prepare remediation plans that include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

.07 According to OMB's FFMIA implementation guidance, auditors are to plan and perform their audit work in sufficient detail to enable them to determine the degree of compliance and report on instances of noncompliance for all of the applicable FFMIA requirements. The guidance describes specific minimum requirements from Circular A-127 that agency systems should meet to achieve compliance and provides indicators of compliance. The indicators included in

OMB's implementation guidance are characterized as examples and are not all-inclusive. The four primary factors OMB identifies as critical to assessing compliance with FFMIA are determining whether agencies can:[6]

- Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- Provide reliable and timely financial information for managing current operations;
- Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and,
- Do all of the above in a way that is consistent with federal accounting standards and the *Standard General Ledger*.

AUDIT ISSUES

.08 While financial statement audits will offer some assurances regarding FFMIA compliance, auditors should design and implement additional testing to satisfy the criteria in FFMIA. For example, in performing financial statement audits, auditors generally focus on the capability of the financial management systems to process and summarize financial information that flows into agency financial statements. In contrast, FFMIA requires auditors to assess whether an agency's financial management systems comply with systems requirements. To do this, auditors need to consider whether agency systems provide complete, accurate, and timely information for managing day-to-day operations. This is based on Congress' expectation, in enacting FFMIA, that agency managers would have any necessary information to measure performance on an ongoing basis rather than just at year-end. Financial statement auditors generally review performance measure information for consistency with the financial statements, but do not assess whether managers have the performance-related information to manage during the fiscal year.

.09 As a result of the overlapping scope and nature of FFMIA assessments and financial statements audits, the auditor should use, where appropriate, the audit work performed as part of the financial statement audit. In the example audit program (FAM 701 A) for testing compliance with FFMIA, several procedures indicate that the auditor may have performed the procedure as part of the financial statement audit; whereas, other procedures needed to assess FFMIA compliance require additional work not normally contemplated by financial statement auditors. The determination of FFMIA compliance need not be performed simultaneously with the financial statement audit. The determination of FFMIA compliance may be performed by different staff or staggered

[6] OMB is considering revising this guidance.

throughout the assessment time frame. While the example audit program provides steps the auditor should perform, the auditor may tailor the steps to satisfy the objectives or intent of the step if the step cannot be completed as described. Because of the broad scope of federal operations and the many variations that can and do flow from such a broad scope, the degree of specificity in the example audit program varies. For example, each agency will likely need and use a variety of internal reports for managing current operations. These reports may be on line or in hard copy. Auditors will need to use their skills and professional judgment to assess the adequacy of these reports that are essential to having FFMIA compliance. Auditors may also rely on other work products that address the objectives of the example audit procedures.

.10 As discussed in FAM section 350, the auditor need not perform specific tests of the systems compliance with FFMIA requirements for agencies with longstanding, well-documented financial management systems weaknesses that severely affect the systems' ability to comply with FFMIA requirements. The auditor should understand management's process for determining whether its systems comply with FFMIA requirements and report any deficiencies in management's process along with previously identified problems.

.11 FAM paragraphs 580.62 through .66 and FAM section 595 A provide FFMIA reporting guidance. When reporting a lack of substantial compliance, the auditor should refer to FAM 595 B for suggested modifications to the report. FAM Part III, section 1603, provides guidance that GAO will use to provide an affirmative statement when reporting on compliance with FFMIA.

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701 A – EXAMPLE AUDIT PROCEDURES FOR TESTING COMPLIANCE WITH FFMIA

Entity ____

Date of review ____

Job code ____

Objective: FFMIA requires the 24 major departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level. OMB also requires certain designated entities to determine FFMIA compliance. The objective of this audit program is to assess whether agencies' systems' comply with FFMIA.

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
I. Planning (May be combined with the work to plan the financial statement audit) A. To understand the FFMIA requirements, read: • Federal Financial Management Improvement Act, P.L. 104-208. • *Audit Requirements for Federal Financial Statements* (OMB Bulletin). • OMB Memorandum, January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act.* • JFMIP Publications of Federal Financial Management System Requirements including the Framework and Core Financial System Requirements. • *Form and Content of Agency Financial Statements* (OMB Bulletin) • FASAB Standards. • *Treasury Financial Manual* (TFM) sections related to the SGL (see transmittal letter S2-01-02 and TFM Part 2, Chapter 4000).		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
• OMB Circular No. A-123, *Management Accountability and Control.* • OMB Circular No. A-127, *Financial Management Systems.* • OMB Circular No. A-130, *Management of Federal Information Resources.* • Government Information Security Reform (GISR) legislation, Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398.		
B. Read the prior year's workpapers and audit report to identify (1) the auditors' FFMIA determinations, (2) reported instances of noncompliance with FFMIA, and (3) material weaknesses and reportable conditions related to the agency's financial management systems. • Prepare a schedule of the previously identified problems to follow up on the status of these specific problems. See section 701 B for an example of the schedule.		
C. Read the most recent FMFIA report, IG reports, GAO reports, internal control workpapers from the financial statement audit or other reports related to financial systems and consider the impact of any reported weaknesses on the FFMIA assessment. • Obtain an update on the status of the issues and document problems identified in the schedule in section 701 B.		
D. Read the cycle memoranda for each of the audit cycles completed for the current year audit. Document issues related to FFMIA compliance in the schedule in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
E. From the work performed in part I (planning), decide whether it is necessary to perform the remaining test steps. If the information gathered indicates "longstanding, well-documented financial management systems weaknesses" that preclude compliance with FFMIA requirements, then: 1. Document recognition of longstanding, well-documented financial management systems weaknesses and identify the source for this conclusion. 2. Obtain and document an understanding of management's process for determining whether its systems comply with FFMIA requirements. Report any deficiencies identified in management's process. 3. Complete step V (summary), except for completion of the schedule in FAM section 701 B.		
II. Testing for Compliance with Federal Financial Management Systems Requirements A. Ask whether the agency has an agencywide inventory of its systems. If so, obtain the inventory and any supporting documentation.		
B. From the agency's inventory of systems, identify the core financial management systems and the feeder systems. 1. Document the key internal controls and the information flows between the core financial systems and the feeder systems in a flowchart or narrative. (This step may be performed as part of the internal control phase). a. Determine whether the feeder systems are integrated or interfaced with the core financial system. Note: Feeder systems that are integrated with the core financial system share data tables. Therefore, reconciliations should not be necessary.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
b. If the feeder systems interface with the core systems, determine whether reconciliations are performed between the systems. If reconciliations are performed, determine how often and by whom; assess the adequacy of the reconciliation, including follow-up activities and supervisory review. c. Through interviews with agency management and reading of systems documentation, determine if the agency's systems have detective controls (i.e., batch control or hash totals or supervisory reviews) and preventive controls (i.e. segregated duties, appropriate authorizations, or access controls) to process transactions properly and timely. (May be performed as part of the internal control phase).		
2. Using the documentation prepared in step II.B.1 above, identify those JFMIP financial management systems requirements that are applicable to the agency's operations. For example, for those agencies that do not have grant or loan programs, the auditor would not need to assess whether JFMIP requirements related to grants or loans are applicable. Document the results.		
C. Determine whether the agency's core financial management system and the financial portions of its applicable feeder systems, as identified in step II.B.2 above, conform to JFMIP's federal financial management systems requirements. • Ask whether the agency's core financial management system is a JFMIP-certified COTS system. If so, ask which version of the software is being used and obtain the agency's JFMIP certification for that software version. [Agencies replacing software to meet core financial system requirements must use JFMIP-certified core financial management systems as required by OMB Circular A-127, but it is not a noncompliance issue for FFMIA purposes.]		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
1. Ask whether there have been significant changes in the agency's automated business processes since compliance testing with JFMIP requirements was last performed. If so, ask whether the agency has performed an assessment of any new functionality using the JFMIP system requirements documents, GAO checklists, or similar tools. Document the results.		
2. For those agencies with a core financial management system that is not a JFMIP- certified COTS and for any feeder systems, obtain any analyses performed by agency management to support its FFMIA and FMFIA assessments that document how the agency's systems conform to the applicable JFMIP systems requirements. If management has not performed an analysis of systems functionality, go to step C.5.		
3. Select several important functions that management has reported as complying with the systems requirements and determine if management's assessment can be relied upon.		
4. If management's results cannot be relied upon for each system, perform an assessment of the functionality of the applicable systems using JFMIP system requirement documents, GAO checklists or other similar tools.		
5. Document in section 701 B, the instances and related impact in which the agency's systems did not comply with JFMIP requirements.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
D. Ask if management receives appropriate reports that are significant to performing day-to-day management operations. 1. Determine the adequacy of reports used to manage day-to-day operations. a. For reports that are produced by the agency's financial management systems, ask knowledgeable users, read the agency's financial management systems documentation, and from other audit work, use professional judgment to determine if the reports produced by the systems are timely, useful, reliable, complete, and appropriately summarized for the management level receiving the report. Use professional judgment, agency policy, and/or criteria evident from each report to determine its timeliness and accuracy; i.e., if a report is due by the 10th of each month, verify it was provided by the 10th of each month. If only on-line access is provided for important internal reports, through observation, documentation, and inquiry—such as obtaining systems logs and asking key managers about their work habits—assess whether the reports were available and accessed. Through inquiry and observation, assess if management uses the reports to manage operations. Ask management what improvements are needed in the current reporting methods. Document the results. b. If the reports were not produced by the agency's financial management systems, ask how the reports were prepared and perform a similar assessment as described in step D.1.a.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
2. Determine whether appropriate levels of management are receiving adequate and timely management information. See FAM paragraph 903.12 for questions related to determining FFMIA compliance with SFFAS No. 4. a. Using professional judgment and industry best practices, identify internal management performance-related information that should be available for managing day-to-day operations. b. Determine whether appropriate levels of management are receiving the information identified in step D.2.a. c. If full costing is not used in these management reports, assess whether the lack of full cost information affects the usefulness of the information. Review management's justification that full costing would not be beneficial for the internal reports. This may need to be assessed on a case-by-case basis.		
3. Include any deficiencies identified and related impact in the schedule shown in section 701 B.		
E. Identify the agency's external reports that are related to financial management such as those used for budget formulation and execution, fiscal management of agency programs, funds management, payments and receipts management, and to support the legal, regulatory, and other special requirements of the agency. 1. Through interviews with knowledgeable users and reading of the agency's financial management system documentation, determine if the reports are produced by the systems. a. For external reports that are tested as part of the financial statement audit, include any deficiencies identified and the related impact in section 701 B. b. For external reports that are not tested as part of the financial statement audit, using professional judgment select several reports and assess whether the reports are reliable, timely,		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
and complete. Include any deficiencies identified and the related impact in section 701 B.		
2. As an indicator of systems deficiencies, determine the magnitude and type of adjustments made by both management and the auditors to derive financial statements after the end of the accounting period.		
F. Determine if the agency's financial management systems track financial events and summarize information to facilitate the preparation of auditable financial statements. This determination can result from work performed as part of the financial statement audit. Document the deficiencies and the related impact in the schedule shown in section 701 B.		
G. Determine if the financial management systems enable the agency to prepare, execute, and report on the agency's budget in accordance with the requirements of OMB Circular No. A-11. This determination can result from work performed as part of the financial statement audit. Document the deficiencies and the related impact in the schedule shown in section 701 B.		
H. Determine if the agency's financial management systems capture and produce the financial information required to measure program performance. 1. Identify the agency's performance measures from its most recent accountability report that include data from the agency's financial management systems.		
2. Ask agency management whether an assessment was performed of the validity of the financial data used to derive the performance measures. If so, obtain and review the assessment and any supporting documentation.		
3. If agency management has not assessed the validity of the financial data used to derive the agency's performance measures, include this deficiency in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
4. Determine if recent GAO or IG reports have addressed the validity of financial data used to derive performance measures.		
5. If any deficiencies were identified, include them along with the related impact in the schedule shown in FAM section 701 B.		
I. Coordinate with the Information Security (IS) auditors to determine if the agency has implemented and maintains a program to provide adequate security for all agency information that is collected, processed, transmitted, stored, or disseminated in financial management systems. 1. Have the IS auditors review the annual management evaluation and the annual independent evaluation conducted in accordance with the Government Information Security Reform (GISR) legislation.		
2. Document the deficiencies and related impact identified by the IS auditors in the schedule shown in section 701 B.		
J. Determine if the financial management systems include internal control to safeguard resources against waste, loss, and misuse, and whether reliable data are obtained, maintained, and disclosed in system generated reports. Some of the information needed to make this determination may be obtained from the work performed in the internal control phase of the financial statement audit, and other systems internal control weaknesses may be identified from other audit reports reviewed and steps performed in this program. Document the results in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
III. Testing for Compliance with the Federal Accounting Standards A. Determine if the agency's financial statements are compiled in accordance with applicable accounting standards. 1. Ask agency management and review financial statement audit results to determine whether any FASAB standards are not applicable. Document the results. Analyze the resultant list of applicable/ inapplicable FASAB standards for reasonableness and use the list as a reference in performing these steps.		
2. Determine if any issues reported as part of the financial statement audit were related to the lack of the agency's implementation of the accounting standards in their systems or the standards were not properly applied because of inadequate or improperly implemented manual procedures. Document the results in the schedule shown in section 701 B.		
B. Perform tests to determine if the agency's cost accounting systems • use the agency's accounting classification elements to identify and establish unique cost objects to capture, accumulate, and report costs and revenues; • allocate and distribute the full cost and revenue of cost objects as defined by OMB including services provided by one federal entity to another for external reporting; and • transfer cost data directly to and from other cost systems/applications that produce or allocate cost information. Also, see step II.D.2 of this audit program.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
C. From the deficiencies identified in performing steps in part II (testing for compliance with federal financial management systems requirements) and from tests conducted as part of the financial statement audit, determine if the financial systems record and summarize transactions in accordance with applicable accounting standards. Note that the systems functionality assessments performed in step II. B. should have determined any compliance issues related to accounting standards since the accounting standards are used as a source for systems functionality requirements. Document the results and the related impact in the schedule shown in section 701 B.		
IV. Testing for Compliance with the SGL A. Determine whether the agency financial management systems use financial data that can be traced directly to SGL accounts to produce reports providing financial information for both internal and external reporting. 1. Ask agency management and from the documentation prepared in step II.B.1 above, determine how financial transaction data are summarized from the financial systems to the core financial system.		
2. Compare the agency's chart of accounts to the SGL accounts and identify any deviations.		
3. Review all of the standard entries allowed by the core financial system to determine if these entries conform to the SGL posting rules.		
4. Document any deficiencies and the related impact in the schedule shown in section 701 B.		
B. Ask whether the agency uses a crosswalk from its chart of accounts for its core financial management system to the SGL. If so, perform tests to determine the accuracy of the crosswalk. 1. Trace all SGL accounts to the crosswalk.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
2. Identify any SGL accounts that are not included in the crosswalk. Identify any agency accounts not associated with an SGL account in the crosswalk.		
3. Compare the posting rules used by the system to those included in the SGL to determine whether the posting rules used by the system conform to the SGL.		
4. Document deficiencies and the related impact in the schedule shown in section 701 B.		
V. Summary A. Summarize the results of the work performed above and assess the agency's compliance with the federal financial management systems requirement of FFMIA. 1. Finalize the schedule of the FFMIA noncompliances identified in the schedule prepared in FAM section 701 B.		
2. Read the agency's management representation letter covering the fiscal year under audit to obtain the agency management's FFMIA determination. a. Document the entity or organization responsible for the financial management systems that have been found not to comply. b. Document all facts pertaining to the: i. nature and extent of the noncompliance and areas where there is substantial but not full compliance; ii. primary reason or cause of the noncompliance; iii. impact of the noncompliance; iv. entity or organization responsible for the noncompliance; and v. relevant comments from any responsible officer or employee. c. Assess the recommended remedial actions for each instance of noncompliance and the time frames for implementing these actions. Include this assessment in the schedule in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
3. After reviewing the nature and extent of deficiencies identified, conclude whether the systems deficiencies identified constitute lack of substantial compliance with FFMIA. Consider the four factors in paragraph 701.07 from OMB's FFMIA implementation guidance when drawing this conclusion.		
4. Prepare the FFMIA section of the report. See FAM paragraphs 580.62 through .66 and sections 595 A, 595 B, and 1603, as appropriate.		

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701 B – SUMMARY SCHEDULE OF INSTANCES OF NONCOMPLIANCE WITH FFMIA

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Prior year's reported instances of noncompliance (Step I.B.)											
Prior year's material weak-nesses and reportable conditions that affect FFMIA determination (Step I.B.)											

701 B – Summary Schedule of Instances of Noncompliance with FFMIA

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Weaknesses in the agency's most recent FMFIA report that affect FFMIA determination (Step I.C.)											
Weaknesses in Recent IG and GAO reports that affect FFMIA determination (Step I.C.)											
Cycle memo-randa for the current year's audit (Step I.D.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Instances in which the agen-cy's systems did not comply with JFMIP's functional requirements (Step II.C.)											
Preparation of internal manage-ment reports (Step II.D.)											
Preparation of external agency reports (Step II.E.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Preparation of auditable financial statements (Step II.F.)											
Preparation, execution, and reporting on agency budget in accordance with OMB require-ments (Step II.G.)											
Management's assessment of the validity of information used to derive perfor-mance measures (Step II.H.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Implementation and maintenance of an information security program (Step II.I.)											
Internal controls as part of finan-cial management (Step II.J.)											
Preparation of agency financial statements in accordance with applicable ac-counting stan-dards (Step III.A.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Compliance issues related to the implemen-tation of applic-able accounting standards (Step III.C.)											
Agency financial systems' imple-mentation of the SGL accounts (Step IV. A.)											
Agency use of a crosswalk from its core financial management system to the SGL (Step IV. B.)											

SECTION 800

Compliance

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802 - General Compliance Checklist

.01 The compliance testing section consists of a General Compliance Checklist (questionnaire) for identifying laws and regulations for compliance testing and supplements for the laws OMB requires auditors of CFO Act agencies to test for (see section 295 H) and other laws of general applicability auditors may consider during federal financial audits. The compliance supplements provide detailed guidance for assessing the effectiveness of compliance controls and testing compliance with the significant provisions of each law.

.02 The General Compliance Checklist (Form 802), or equivalent, generally should be completed for federal financial audits. If an individual law is considered to be significant for purposes of compliance testing, the related supplement should be completed. Supplements should be completed only for laws required to be tested for CFO Act agencies and for other laws identified for compliance testing on the General Compliance Checklist. Use of these documents is described below.

.03 To understand and evaluate compliance controls, the auditor also should follow the guidance in FAM 260 on identifying risk factors and in FAM 320 on understanding information systems. The FAM also provides additional guidance on compliance considerations for all audit phases.

INSTRUCTIONS FOR GENERAL COMPLIANCE CHECKLIST

.04 The checklist contains a summary of each law. The auditor generally should use this checklist or equivalent to determine which of these laws are considered to be significant for purposes of testing compliance, as discussed in FAM 245. The auditor should indicate whether each law meets the criteria for significance by placing a check mark in the appropriate column (yes or no). OMB audit guidance requires auditors of CFO Act agencies to test for five of the laws, as noted in section 295 H. Auditors also may test for the other four laws if they have determined they are material to the financial statements being audited.

.05 The auditor may need to use estimates or interim information in the preliminary column. The final amounts (based on the audited amounts or the final amounts of available budget authority) are used to determine whether all laws that would be significant in quantitative terms have been identified for control and compliance testing. The sources of all amounts included in this checklist should be documented. If the law is considered to be significant from a qualitative standpoint, the reasons for this conclusion should be documented.

.06 Supplements to the General Compliance Checklist (Form 802)

Law	Supplement number
Antideficiency Act (required for CFO Act agencies)	803
Federal Credit Reform Act of 1990 (required for CFO Act agencies)	808
Provisions Governing Claims of the U.S. Government as provided primarily in 31 U.S.C. 3711-3720E (Including the Debt Collection Improvement Act of 1996 (DCIA)) (required for CFO Act agencies)	809
Prompt Payment Act (required for CFO Act agencies)	810
Pay and Allowance System for Civilian Employees as Provided Primarily in Chapters 51-59 of Title 5, U.S. Code (required for CFO Act agencies)	812
Civil Service Retirement Act	813
Federal Employees Health Benefits Act	814
Federal Employees' Compensation Act	816
Federal Employees' Retirement System Act of 1986	817

Entity ____

Period of financial statements ________________________________

Job code ____

Description of Law	Yes	No
Antideficiency Act - 31 U.S.C. 1341, 1342, 1514, 1517 This law imposes restrictions on the amounts of budgetary authority that may be obligated or expended. As discussed in FAM 250, the auditor should obtain information on the entity's budget authority, from sources such as appropriation legislation, and identify all legally binding restrictions on budget execution. Do the amounts of any legally binding budget execution restrictions on budget authority in effect during the audit period exceed planning materiality or are provisions of the Antideficiency Act otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary Final Individual appropriations ________ ________ budget authority ________ ________ Planning materiality ________ ________ If yes, complete compliance supplement 803.	____	____

Description of Law	Yes	No
Federal Credit Reform Act of 1990 (FCRA), 2 U.S.C. 661-661f This law contains numerous provisions relating to the recording of activity related to direct loans, loan guarantees, and related modifications for budget accounting purposes. The law provides that after October 1, 1991, an agency may incur new direct loan obligations or make new loan guarantee commitments only to the extent that Congress has provided budget authority to cover the costs of the loan or loan guarantee. Does the entity's budget authority available during the audit period for direct loan obligations, loan guarantee commitments, or any related modifications exceed planning materiality or are provisions of the FCRA of 1990 otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary / Final Total appropriations or other budget authority available during the fiscal year for costs of FCRA activities (direct loans, loan guarantees, and related modifications) ____ ____ Planning materiality ____ ____ If yes, complete compliance supplement 808.	____	____

Description of Law	Yes	No
Provisions Governing Claims of the U.S. Government, Including the Debt Collection Improvement Act of 1996 (DCIA) These provisions address the collection of amounts owed to the federal government. Interest generally accrues from the date that a notice stating the amount due and the interest policies is first mailed to the debtor. Interest generally accrues at a rate established by the Secretary of the Treasury. Administrative costs and penalties shall also be charged. The provisions also require the entity to take all appropriate steps to collect the debt before discharging it and to notify Treasury about delinquent debt for administrative offset, collection by a debt collection center, or tax refund offset. Entities shall also participate in a computer match of delinquent debt with federal employees, and when collection actions are terminated, the entity holding delinquent debt shall sell it. Provisions also require the entity (or entities making loans the government guarantees) to notify credit-reporting agencies about delinquent debt and not make or guarantee loans to persons who owe delinquent debt. Does the cumulative amount of receivables created during the audit period that are subject to provisions governing claims of the U.S. government, including DCIA, exceed planning materiality; does the amount of receivables at the end of the audit period that are subject to provisions governing claims of the U.S. government, including DCIA, exceed planning materiality; or are provisions governing claims of the U.S. government, including the DCIA, otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) (continued on next page)	____	____

Description of Law	Yes	No
Provisions Governing Claims of the U.S. Government, Including the Debt Collection Improvement Act of 1996 (DCIA) (continued) Preliminary / Final Cumulative amount of receivables created during the audit period that are subject to provisions governing claims of the U.S. government, including DCIA ______ ______ or: Amount of receivables at the end of the audit period that are subject to provisions governing claims of the U.S. government, including DCIA ______ ______ Planning materiality ______ ______ If yes, complete compliance supplement 809. Note: These provisions of the law generally do not apply to amounts payable to the entity under the Internal Revenue Code, the Social Security Act, or tariff laws. Those laws contain specific provisions for these amounts.		

Description of Law	Yes	No
Prompt Payment Act, 31 U.S.C. 3901 et seq. The Prompt Payment Act requires federal entities to make payments for property or services by the due date specified in the related contract or, if a payment date is not specified in the contract, generally 30 days after the invoice for the amount due is received. If payments are not made within the appropriate period, the entity shall pay an interest penalty. Also, discounts offered by vendors may be taken only during the specified period. If they are taken after the time period has expired, an interest penalty shall be paid. Do the entity's payments for property or services subject to the Prompt Payment Act for the audit period exceed planning materiality or are provisions of the Prompt Payment Act otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary / Final Amount of payments made for property and services subject to the Prompt Payment Act ________ ________ Planning materiality ________ ________ If yes, complete compliance supplement 810.	____	____

Description of Law	Yes	No
Pay and Allowance System for Civilian Employees as Provided Primarily in Chapters 51-59 of Title 5, U.S. Code These laws require that employees be paid at the appropriate rates established by law, including general pay increases, and that employees be paid at least minimum wage. Does the entity's payroll expense for the audit period exceed planning materiality or are related provisions of the Pay and Allowance System for Civilian Employees (as provided primarily in Chapters 51-59 of Title 5, U.S. Code) otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary Final Payroll expense ________ ________ Planning materiality ________ ________ If yes, complete compliance supplement 812. It is not expected that the entity's expense for performance awards, cash awards, overtime, travel, transportation, subsistence, or allowances for the audit period would exceed planning materiality. However, if these items or related provisions of the Pay and Allowance System for Civilian Employees are otherwise considered to be significant, the auditor should consult with the Office of General Counsel (OGC) for specific provisions to be considered for compliance testing.	____	____

Description of Law	Yes	No
Civil Service Retirement Act, 5 U.S.C. 8331 et seq. This law provides retirement benefits to employees who were hired prior to January 1, 1984. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an equal amount for retirement. The employee and entity amounts are remitted to Treasury. Does the entity's expense for retirement costs under the Civil Service Retirement Act for the audit period exceed planning materiality or are provisions of the Civil Service Retirement Act otherwise considered to be significant? Preliminary / Final Expense for retirement contributions ____ ____ Planning materiality ____ ____ If yes, complete compliance supplement 813.	____	____

Description of Law	Yes	No
Federal Employees Health Benefits Act, 5 U.S.C. 8901 et seq. This law provides health insurance coverage to employees who elect health insurance benefits. For each employee who elects coverage, the entity pays an amount set by OPM for insurance costs. The entity portion cannot exceed 75 percent of the insurance cost. The employee pays the remainder of the total cost. Information on the employee and entity cost of the insurance is published by OPM. The entity withholds the amount of the employee's portion of the cost from the employee's pay and remits this amount, along with its own contribution, to Treasury. Does the entity's expense for health insurance costs for the audit period exceed planning materiality or are provisions of the Federal Employees Health Benefits Act otherwise considered to be significant? Preliminary / Final Expense for health insurance __________ ________ Planning materiality __________ ________ If yes, complete compliance supplement 814.	____	____

Description of Law	Yes	No
Federal Employees' Compensation Act, 5 U.S.C. 8101 et seq. This law provides for the compensation of employees injured or disabled while performing their duties. Claims are paid out of the Federal Employees' Compensation Fund. Federal entities are billed annually by the fund for claims paid on their behalf. Does the entity's expense for the audit period for benefits paid by the Federal Employees' Compensation Fund on the entity's behalf exceed planning materiality or are provisions of the Federal Employees' Compensation Act otherwise considered to be significant? Preliminary / Final Expense for Compensation Fund claims ____ ____ Planning materiality ____ ____ If yes, complete compliance supplement 816.	____	____

Description of Law	Yes	No
Federal Employees' Retirement System Act of 1986, 5 U.S.C. 8401 et seq. This law provides retirement benefits for employees who were hired after December 31, 1983. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an amount equal to the employing agency's applicable normal cost percentage less the employee deduction rate for retirement. The employee and entity amounts are remitted to Treasury. Does the entity's expense for retirement costs under the Federal Employees' Retirement System Act for the audit period exceed planning materiality or are provisions of the Federal Employees' Retirement System Act of 1986 otherwise considered to be significant?	____	____
Preliminary / Final Expense for retirement contributions ____________ ____________ Planning materiality ____________ ____________ If yes, complete compliance supplement 817.		

Description of Law	Yes	No
Other laws Perform the following procedures and include references to supporting documentation: 1. As described in FAM 245.02, read the list of laws and regulations identified by the entity as significant to others. (See ________________.) 2. With OGC assistance, identify any other laws or regulations that have a direct effect on determining financial statement amounts. Determine whether any such laws or regulations are material to the financial statements. (See ____________.) 3. Consider whether to test compliance with any indirect laws or regulations and make inquiries of management as discussed in FAM 245.04-.06. (See _______________.) 4. For all laws or regulations identified for testing above, identify significant provisions using the criteria in FAM 245.02. Test compliance controls and compliance as described in FAM 300 and 460. Are any other laws or regulations identified for compliance testing? If yes, attach a list of the laws or regulations identified to this form and reference it to control and compliance work performed.	____	____

INSTRUCTIONS FOR COMPLIANCE SUPPLEMENTS

.07 Each compliance supplement consists of (1) a compliance summary, (2) a compliance audit program, and (3) notes.

Compliance Summary

.08 For each law identified for compliance testing on the General Compliance Checklist, the auditor generally should complete the related compliance summary or equivalent. The compliance summary is designed to assist the auditor in planning compliance control tests and summarizing the results of compliance control tests and compliance tests for reporting the results of the work performed.

.09 The first column contains a description of the specific provisions of the law that have been identified for compliance testing, the type of provision, and the reference to the law.

.10 The second column contains the objective related to the specific provision to be used for both compliance control and compliance testing.

.11 The auditor should identify the control activities that the entity has in place to achieve each objective and document the control activity in the third column. If the entity does not have a control activity that achieves the objective, the auditor should document this condition in the third column.

.12 The fourth column is used to indicate whether the control activity is information system (IS)-related as described in FAM 270.04. IS controls are those the effectiveness of which depends on computer processing. They can generally be classified into general, application, and user controls. Testing of IS controls generally should be performed by an IS auditor, although the audit team may assist the IS auditor.

.13 The auditor should design control tests to determine whether the control activities that have been identified in the third column are in place and operating effectively. A control activity is considered to be effective if it achieves the control objective. The control testing program and the control tests should be recorded in the documentation. The results of these tests and the auditor's conclusions on the effectiveness of the compliance controls should be documented in the fifth column of the Compliance Summary. A reference to supporting documentation should be included in this column.

.14 Compliance tests should be performed using the related Compliance Audit Program as described below. The results of the compliance tests should be indicated in the last column of the Compliance Summary along with a reference to the supporting documentation.

Compliance Audit Program

.15 A compliance audit program has been developed for the provisions identified on the related compliance summary for each law. For each law identified for compliance testing on the General Compliance Checklist, the auditor generally should perform each step of the related compliance audit program. Because the subject matter of some laws is closely related to matters the auditor will be planning to test for other parts of the audit, the auditor should consider coordinating with that other testing and designing multipurpose tests. For example, payroll compliance testing could be performed using multipurpose tests of payroll controls and/or substantive payroll testing. The auditor generally should initial in the "performed by" column of the compliance audit program when he or she performs the procedure. A reference to the documentation recording the work performed for each step generally should be included in the last column of the compliance audit program.

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803 - ANTIDEFICIENCY ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Antideficiency Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on budget execution, including the Antideficiency Act, is included in OMB Circular A-11, Part 4.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. The entity shall not make expenditures or obligations that exceed the amount available for expenditure or obligation in an appropriation or fund. Type: Quantitative-based Ref: 31 U.S.C. 1341(a)(1)(A) and (C)	1. Expenditures or obligations do not exceed the amount available for expenditure or obligation in an appropriation or fund.	[Document the control activities used by the entity to achieve the objective.] (See note 2.)	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 803 Step 3.

Name of entity: ________ Audit period: __________	Compliance Summary			Prepared by: ___________ Reviewed by: __________	
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. The entity shall not make expenditures or obligations that exceed (1) the amount of an apportionment; or (2) a lesser amount, if any, established by agency regulations (such as the allotment level). See note 1. Type: Quantitative-based Ref: 31 U.S.C. 1517(a)	2. Expenditures or obligations do not exceed the legally binding limit on the entity's budget authority. (The amount of the apportionment or a lesser amount, if any, established by the entity's regulations.) See note 1.	(See note 2.)			See Compliance Audit Program 803 Step 4.

Note: Complete this program or prepare equivalent documentation only if provisions of the Antideficiency Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary for this law.

Name of entity: ____________
Audit period: ____________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802 - General Compliance Checklist. Per page 802-3, the auditor should identify all legally binding restrictions on budget execution, from sources such as appropriation legislation. (The following tests for compliance with the Antideficiency Act should be coordinated with tests of the Statement of Budgetary Resources and with tests of expenses.)		

Name of entity: ___________
Audit period: ___________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
2. As discussed in FAM 460.03, the auditor needs assurance that the summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. This assurance may be provided through effective controls (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization as described in FAM 495 B. For the accounts listed in step 1, document if this assurance is provided through effective controls (as indicated on Form 803 - Compliance Summary) or if substantive tests of the budget information are necessary. If the controls are not considered to be effective in meeting some or all of the budget control objectives listed in FAM 395 F, perform substantive tests of the budget amounts (obligations and expenditures) as discussed in FAM 495 B. These substantive tests should be performed only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, perform the compliance tests in steps 3 and 4.		
3. Compare the actual amounts of budget obligations and expenditures with the related <u>appropriation or other budget authority</u> listed in step 1. If the entity does not appear to have complied with the provision, perform step 5. (31 U.S.C. 1341(a)(1)(A) and (C))		

Name of entity: ___________
Audit period: ___________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
4. Determine the entity's legally binding level of budget authority (below the appropriation level) that was identified during the planning phase. This level is usually the apportionment level unless the entity has elected a lower level, such as allotments. Compare the amount of actual obligations and expenditures to the legally binding level of restrictions on budget authority identified for compliance testing (the apportionment or allotment level). If the entity does not appear to have complied with the provision, perform step 5. (31 U.S.C. 1517(a))		
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • report the nature of any weakness in controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75.).		

Name of entity: ____________
Audit period: ____________ Reviewed by: _____________

Audit Procedures	Done by/date	W/P ref
6. Document conclusions on compliance with each provision on Form 803 - Compliance Summary.		

Note 1: Entities are required to establish regulations that provide for a system of administrative controls over their execution of budget authority (31 U.S.C. 1514(a)). As discussed in FAM 250.03, the entity may elect to lower the level at which budget limitations are legally binding in these regulations. For example, the entity may elect to reduce the legally binding limit on the obligation and expenditure of budget funds from the apportionment to the allotment level. The auditor should determine the level at which the entity's legally binding limit has been established.

Note 2: The auditor should consider the results of the evaluation and testing of budget controls. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F. The auditor should reference this compliance summary to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude if compliance controls are effective.

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808 - FEDERAL CREDIT REFORM ACT OF 1990

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Credit Reform Act of 1990 (FCRA) are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on FCRA is included in OMB Circular A-11, part 5, *Federal Credit Programs*.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Direct loan obligations may be incurred on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs. (See notes 1, 2, and 5-7.) Type: Quantitative-based Ref: 2 U.S.C. 661c(b)	1. Direct loan obligations made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See notes 1, 2, and 5-7.)	[Document the control activities used by the entity to achieve the objective.] (See note 10.)	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 808 Steps 3 and 4.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. A direct loan obligation or outstanding direct loan shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available. (See notes 5 and 8.) (See note 9 for matters to discuss with OGC prior to testing.) Type: Quantitative-based Ref: 2 U.S.C. 661c(e)	2. Modifications made to direct loan obligations or outstanding direct loans do not exceed the available budget authority. (See notes 5, 8, and 9.)	(See note 10.)			See Compliance Audit Program 808 Step 3.
3. Loan guarantee commitments may be made on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs. (See notes 3 to 7.) Type: Quantitative-based Ref: 2 U.S.C. 661c(b)	3. Obligations for new loan guarantee commitments made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See notes 3 to 7.)	(See note 10.)			See Compliance Audit Program 808 Steps 3 and 4.

Name of entity: ________ Audit period: __________	Compliance Summary				Prepared by: __________ Reviewed by: __________
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
4. A loan guarantee commitment or outstanding loan guarantee shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available. (See notes 5 and 8.) (See note 9 for matters to discuss with OGC prior to testing.) Type: Quantitative-based Ref: 2 U.S.C. 661c(e)	4. Modifications made to loan guarantee commitments or outstanding loan guarantees do not exceed the available budget authority. (See notes 5, 8, and 9.)	(See note 10.)			See Compliance Audit Program 808 Step 3.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Credit Reform Act (FCRA) are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

OMB guidance on FCRA is included in OMB Circular A-11, part 5, *Federal Credit Programs*.

Name of entity: ____________
Audit period: ______________ Reviewed by: __________________

Audit Procedures	Done by/date	W/P ref
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802 - General Compliance Checklist.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
2. As discussed in FAM 460.03, the auditor needs assurance that the summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. This assurance may be provided through effective controls (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization as described in FAM 495 B. For the accounts listed in step 1, document whether this assurance is provided through effective controls (as indicated on Form 808 - Compliance Summary) or whether substantive tests of the budget information are necessary. If the controls are not considered to be effective in meeting some or all of the budget control objectives listed in FAM 395 F, plus the supplemental objectives for FCRA listed in FAM 395 F Sup, perform substantive tests of the budget amounts (obligations and expenditures) as discussed in FAM 495 B. These substantive tests should be performed only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, perform the compliance tests in steps 3 and 4.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
3. For each appropriation account or other budget authority listed in step 1, perform the following procedures that are applicable for direct and guaranteed loan programs that have a positive subsidy (i.e., cash outflows exceed cash inflows); (for direct and guaranteed loan programs that have a negative subsidy (i.e., cash inflows exceed cash outflows), perform step 4): (a) Compare the amount of obligations for direct loans to the amount of the available appropriation or other budget authority. (Note: This budget restriction is applicable only to obligations for direct loans made on or after October 1, 1991.)		
3. (b) Compare the amount of obligations for modifications of direct loan obligations or outstanding direct loans to the amount of available budget authority. (Note: The sale of a direct loan is considered a modification. Discuss applicability of this budget restriction to direct loans and direct loan obligations that were outstanding prior to October 1, 1991, with OGC prior to performing compliance test.)		
3. (c) Compare the amount of obligations for loan guarantee commitments to the amount of the available appropriation or other budget authority. (Note: This budget restriction is only applicable to obligations for loan guarantee commitments made on or after October 1, 1991.)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
3. (d) Compare the amount of obligations for modifications of loan guarantee commitments or outstanding loan guarantees to the amount of available budget authority. (Note: Discuss applicability of this budget restriction to loan guarantees and loan guarantee commitments that were outstanding prior to October 1, 1991, with OGC prior to performing compliance test.) (2 U.S.C. 661c(b) and (e)) If the amounts of obligations in any of these comparisons exceed the available budget authority, the entity may not be in compliance. Perform step 5.		
4. Direct and guaranteed loan programs that have a negative subsidy (cash inflows exceed cash outflows) do not receive an appropriation. However, such programs have a loan limit that cannot be exceeded, i.e., a maximum number of loans that can be made or guaranteed. For these programs, compare the total number and dollar volume of loans made to the loan limit in the applicable Presidents' Budget. Perform step 5.		

Name of entity: ____________
Audit period: _______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • report the nature of any weakness in controls and consider modification of the report on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
6. Document conclusions on compliance with each provision on Form 808 - Compliance Summary.		

Note 1: A direct loan is a disbursement of funds by the government to a non-federal borrower under a contract that requires the repayment of such funds with or without interest. The term also includes the purchase of, or participation in, a loan made by another lender. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation. (2 U.S.C. 661a(1))

Note 2: A direct loan obligation is a binding agreement by a federal agency to make a direct loan when specified conditions are fulfilled by the borrower. (2 U.S.C. 661a(2))

Note 3: A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (2 U.S.C. 661a(3))

Note 4: A loan guarantee commitment is a binding agreement by a federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement. (2 U.S.C. 661a(4))

Note 5: Appropriations or other budget authority to cover the cost of budget obligations for direct loan obligations and loan guarantee commitments must be made in advance by Congress. For revolving or other funds that otherwise would be available for these budget obligations, Congress must enact a limit on the use of such funds for these purposes to make them available for use. (2 U.S.C. 661c(b))

Note 6: Costs are defined as the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. These calculations are described in further detail under the valuation control objective for obligations in FAM 395 F. (2 U.S.C. 661a(5))

Note 7: There is an exemption from this requirement for entitlements (mandatory programs such as the guaranteed student loan program and the VA home loan guaranty program) and credit programs of the Commodity Credit Corporation existing on the date of enactment of the act (November 5, 1990). (2 U.S.C. 661c(c))

Note 8: Modifications are government actions that alter the estimated net present value of a direct loan or loan guarantee for which an obligation has been recorded, for example, the sale of a direct loan, per SFFAS No. 2, paragraph 53, or a policy change affecting the repayment period or interest rate for a group of existing loans. (Changes within the terms of existing contracts or through other existing authorities are not considered to be modifications. Also, "work outs" of individual loans, such as a change in the amount or timing of payments to be made, are not considered modifications.) The effects of these changes should be included in the annual reestimates of the estimated net present value of the obligations. Permanent indefinite authority is provided by FCRA for these reestimates.

Note 9: Discuss applicability of this budget restriction to direct loans, direct loan obligations, loan guarantees, or loan guarantee commitments that were outstanding prior to October 1, 1991, with OGC prior to performing control or compliance tests.

Note 10: The auditor should consider the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and the Federal Credit Reform Act. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, including the supplemental control objectives for the Federal Credit Reform Act. The auditor should reference to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude if compliance controls are effective.

809 - PROVISIONS GOVERNING CLAIMS OF THE U.S. GOVERNMENT (31 U.S.C. 3711-3720E) (INCLUDING THE DEBT COLLECTION IMPROVEMENT ACT OF 1996 (DCIA))

Note: Complete this compliance summary or prepare equivalent documentation only if provisions governing claims of the U.S. government, as provided primarily in sections 3711-3720E of Title 31, U.S. Code (including provisions of the Debt Collection Improvement Act of 1996), are considered significant, as indicated on Form 802 - General Compliance Checklist.

Name of entity:______________________
Audit period: ________________________

Compliance Summary

Prepared by:______________________
Reviewed by: _____________________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Interest shall be charged on an outstanding debt (or claim) owed to the entity. Interest accrues from the date the notice of the amount due and interest policies is first mailed to the debtor. Interest is charged at the rate established by the Secretary of the Treasury that is in effect on that date. The rate remains fixed at that rate for the duration of the indebtedness. (See notes 1, 2, and 3.) Type: Transaction-based Ref: 31 U.S.C. 3717(a), (b), and (c)	1. Interest is properly calculated and charged on past due amounts owed to the entity at the correct rates. (See notes 1, 2, and 3.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 809 Steps 3 (a), (b), and (c).

Name of entity:________________________ Audit period: ________________________

Compliance Summary

Prepared by:________________________ Reviewed by: ________________________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. The entity shall assess, on a claim owed to it, a charge to cover the cost of processing and handling a delinquent claim plus a penalty charge (of not more than 6 percent a year) for failure to pay a part of a claim more than 90 days past due. These additional charges do not accrue interest. (See note 3.) Type: Transaction-based Ref: 31 U.S.C. 3717(e) and (f)	2. Administrative charges and late payment penalties are properly calculated and charged on past due amounts. (See note 3.)				See Compliance Audit Program 809 Step 3(d).
3. The entity may compromise, terminate, or suspend claims that are not more than $100,000. Claims of more than $100,000 (excluding interest, penalties, and administrative costs) shall be referred to the Justice Department for compromise, termination, or suspension. (See note 4.) Type: Procedural-based Ref: 31 U.S.C. 3711(a)	3. Claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Justice Department for compromise, termination, or suspension. (See note 4.)				See Compliance Audit Program 809 Step 5(a).

Name of entity:______________________
Audit period: ________________________

Compliance Summary

Prepared by:____________________
Reviewed by: ____________________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
4. If the entity is owed a valid and legally enforceable, nontax debt delinquent over 180 days, and there are no bars to collection, it shall notify Treasury about the debt for administrative offset and refer the debt to Treasury or a Treasury-designated debt collection center for collection action. (See notes 5, 6, and 7.) Type: Procedural-based Ref: 31 U.S.C. 3711(g)(1) and (9), 31 U.S.C. 3716(c)(6), 31 U.S.C. 3719 (a), 31 U.S.C. 3720A(a), and 5 U.S.C. 5514(a)(1).	4. When nontax debt becomes delinquent over 180 days, it is referred to Treasury for administrative offset and collection. (See notes 5, 6, and 7.)				See Compliance Audit Program 809 Step 5(b).
5. Unless waived by the entity, a person may not obtain any loan (other than a disaster loan) or loan insurance or guarantee administered by the entity if the person has outstanding nontax delinquent federal debt. (Delinquency is determined by Treasury regulations.) Type: Transaction-based Ref: 31 U.S.C. 3720B	5. Loans and loan insurance or guarantees are not granted to persons with delinquent nontax debt.				See Compliance Audit Program 809 Step 4(b).

Note: Complete this program or prepare equivalent documentation only if provisions governing claims of the United States government as provided primarily in sections 3711-3720E of Title 31, U.S. Code (including provisions of the Debt Collection Act of 1996) are considered significant, as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: ____________________
Audit period: ______________________ Reviewed by: _________________

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 809 - Compliance Summary), select a sample of amounts owed to the entity during or at the end of the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 8 regarding sampling efficiencies and completeness of the sample population. Sample size ______________________________ Sample selection method__________________		

Name of entity: ____________________
Audit period: ______________________ Reviewed by: _________________

Audit Procedures	Done by/date	W/P ref
2. For each item selected in step 1 obtain the loan file or other supporting documentation and note the following information as of the date selected for testing: • due date of debt; • amount owed; • date the notice of the amount due and the interest policies is first mailed to the debtor; • amount of interest accrued and other administrative charges and penalties charged, if any; and • number of days the debt is past due, if any. Perform step 3 if the debt is past due. Perform step 4 if the debt is not past due.		
3. If the amount selected is past due: (a) Calculate the number of days that interest should be accrued on the debt as of the date selected for testing. Interest generally accrues from the date that the notice of the amount due is first mailed to the debtor. (See note 1.) Compare the auditor's calculation with the calculation performed by the entity and obtain explanation and examine support for any differences. (31 U.S.C. 3717(b))		

Name of entity: ____________________
Audit period: ______________________ Reviewed by: _________________

Audit Procedures	Done by/date	W/P ref
3. (b) Determine the interest rate that should be used to accrue interest on the debt. The rate is published in the *Federal Register* and should be the rate that was in effect on the date that the notice of the amount due is first mailed to the debtor. (The web site for the *Federal Register* is: http://www.access.gpo.gov/su_docs/aces/aces140.html.) Compare the auditor's determination of the rate to the rate used by the entity and obtain explanation and examine support for any differences. (31 U.S.C. 3717(a) and (c))		
3. (c) Calculate the amount of interest that should be owed as of the date selected for testing using the number of days tested in (a) and the interest rate tested in (b). Compare the auditor's calculation to the amount calculated by the entity and obtain explanation and examine support for any differences. See notes 2 and 3 regarding the waiver of interest.		
3. (d) Obtain the entity's schedule of administrative charges and late payment penalties and determine if the appropriate amounts were charged to the debtor. See note 3 regarding the waiver of these charges. (31 U.S.C. 3717(e) and (f))		

Name of entity: ____________________
Audit period: ______________________ Reviewed by: _________________

Audit Procedures	Done by/date	W/P ref
4. If the debt is not past due, determine through examination of the entity's records whether (a) interest, administrative charges, or penalties are not being charged; and (b) the debtor had no outstanding nontax delinquent federal debt at the time the loan was obtained. (31 U.S.C. 3720 B)		
5. The objectives listed below relate to procedural-based provisions. As discussed in FAM 460.06, sufficient procedures usually are performed in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. Additional procedures should <u>not</u> be performed to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 809 - Compliance Summary. (a) Claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Justice Department for compromise, termination, or suspension. See note 4. (31 U.S.C. 3711) (b) Claims delinquent for a period of 180 days have been referred to Treasury for collection. See notes 5, 6, and 7. (31 U.S.C. 3711 (g))		

Name of entity: ____________________
Audit period: ______________________ Reviewed by: _________________

Audit Procedures	Done by/date	W/P ref
6. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the conclusion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
7. Document conclusions on compliance with each provision on Form 809 - Compliance Summary.		

Note 1: Claims are amounts owed to the government, including amounts owed for loans insured or guaranteed by the government. The term "claim" is used interchangeably with the term "debt" in this law. (31 U.S.C. 3701(b))

Interest normally accrues from the date that notice of the debt and the agency's interest policies is first mailed to the debtor. If the agency sends a bill to the debtor in advance of the due date and that bill states the interest policies, interest would accrue from the due date specified in the bill.

The provisions regarding accrual of interest and other charges do not apply to the extent that a statute, related regulation, loan agreement, or contract provides otherwise, or if a claim is under a contract executed before October 25, 1982, that is in effect on October 25, 1982. (31 U.S.C. 3717(g)) Accrual of interest and penalties under this law does not apply to amounts owed by other agencies of the federal government, a state government or a unit of general local government or to amounts payable to the entity under the Internal Revenue Code, the Social Security Act, or tariff laws. (31 U.S.C. 3701 (c) and (d)) This law, however, does not preclude the charging of interest to state and local governments under authority provided under other laws.

Note 2: The entity shall waive the collection of interest on a claim (or any portion of the claim) that is paid within 30 days after the date on which interest began to accrue. The agency may extend this 30-day period. (31 U.S.C. 3717(d)) Interest that is either accrued or collected on claims that are paid within the 30-day period would usually not be material or otherwise significant for purposes of compliance testing. If the auditor considers this provision to be significant for compliance testing, this form should be tailored to include the appropriate testing procedures.

Note 3: The entity has the authority to waive the collection of interest, penalties, and administrative charges. The entity should follow its own regulations when determining whether a waiver is appropriate. Such regulations should be in conformity with the standards set jointly by the Comptroller General, the Attorney General, and the Secretary of the Treasury described in 31 CFR 901.9. (31 U.S.C. 3717(h))

The entity may increase an administrative claim (debt not based on an extension of government credit through direct loans, guarantees, or insurance, including fines, penalties, and overpayments) annually by the cost of living adjustment in lieu of charging interest and penalties. (31 U.S.C. 3717(i))

Note 4: Compromise is the term used when an amount less than the total amount of the claim is accepted by the entity as payment in full. Suspension refers to the temporary deferral of collection activities until collection activity is expected to be more successful. Termination refers to stopping of collection activities.

Only the Justice Department has the authority to compromise, terminate, or suspend collection on claims that are greater than $100,000 (excluding interest, penalties, and administrative charges). Pursuant to 31 CFR Parts 902.1 and 903.1, entities generally should use a Claims Collection Litigation Report (CCLR) to refer such matters to the Justice Department.

Note 5: Exceptions to the requirement to transfer nontax debt delinquent for a period of 180 days to Treasury for collection are

(a) a debt or claim that
  (1) is in litigation or foreclosure;
  (2) will be disposed of under an asset sales program within 1 year after becoming eligible for sale, or later than 1 year if consistent with an asset sales program and a schedule established by the entity and approved by OMB;
  (3) has been referred to a private collection contractor for collection for a period determined by Treasury;
  (4) has been referred by, or with the consent of, Treasury to a debt collection center for a period determined by Treasury; or
  (5) will be collected under internal offset, if such offset is sufficient to collect the claim within 3 years after the date the debt or claim is first delinquent; and

(b) to any other specific class of debt or claim, as determined by Treasury at the request of an entity. (31 U.S.C. 3711(g)(2)) Examples include
  (1) debts in bankruptcy meeting the criteria for an automatic stay (11 U.S.C. 362),
  (2) foreign debt considered uncollectable by Treasury due to foreign diplomacy considerations and affairs of state,
  (3) debts in forbearance or appeals.

Note 6: Exceptions to the requirement to notify Treasury of nontax debt delinquent over 180 days for administrative offset are a claim that has been outstanding for more than 10 years or when a statute explicitly prohibits using administrative offset or setoff to collect the type of claim involved. (31 U.S.C. 3716(e)) Also, this section does not prohibit the use of any other administrative offset authority existing. (31 U.S.C. 3716 (d))

Prior to referring debts to Treasury, an agency shall inform the debtor of the amount and nature of the debt (such as overpayment, etc.), and actions which may be taken to enforce recovery of a delinquent debt. These include

(a) offset of any payments which the debtor is due, including tax refunds, and salary;
(b) referral of the debt to a private collection agency;
(c) referral of the debt to the Department of Justice or agency counsel for litigation;
(d) reporting of the debt to a credit bureau;
(e) reporting of the debt, if discharged, to IRS as a potential taxable income.

In the future, the agency also will need to inform the debtor that the debt may be subject to administrative wage garnishment, his/her identity may be published or publicly disseminated, and/or the debt may be sold.

The notice must tell the debtor that he/she has the opportunity

(a) to inspect and copy records relating to the debt,
(b) for a review by the agency; and
(c) to enter into a written repayment agreement.

Note 7: Before an entity refers past-due debt to Treasury for reduction of tax refund, it must

(a) notify the person incurring such debt that the entity proposes to refer to Treasury for tax refund offset,
(b) give such person at least 60 days to present evidence that all or part of the debt is not past due or not legally enforceable,
(c) consider any evidence presented by such person and determine that an amount of such debt is past due and legally enforceable,
(d) satisfy such other conditions Treasury may prescribe to ensure the above determination is valid and that the entity has made reasonable efforts to obtain payment, and

(e) certify that reasonable efforts have been made by the entity to obtain payment. (31 U.S.C. 3720A (b))

Treasury issues regulations prescribing the times at which entities shall submit notices of past-due legally enforceable debts, the manner of submitting them, and the information to be contained in them. The regulations also specify the minimum amount of debt that may be referred for tax refund offset and the fee the entity shall pay to reimburse Treasury for its costs.

Note 8: If multipurpose testing is used for the compliance test and/or compliance control test and/or a substantive test of accounts or loans receivable details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test as described in FAM 430. Otherwise, the items should be selected using attribute sampling as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

810 - PROMPT PAYMENT ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Prompt Payment Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on the Prompt Payment Act is included in 5 CFR Part 1315.

Name of entity: ________ Audit period: __________

Compliance Summary

Prepared by: ___________ Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. If payment for property or services from a business concern is not made by the required due date, an interest penalty shall be paid to the concern on the amount of the payment due. The interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made. (See notes 1, 2, 3, 4, and 5.) Type: Transaction-based Ref: 31 U.S.C. 3902(a) and (b)	1a. All payments for property or services that are not made by the payment due date are identified. (See note 1.) 1b. Interest penalties are calculated and paid on the past due amount using the appropriate interest rate and period. (See notes 2, 3, 4, and 5.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 810 Step 4(a) and (b).

Name of entity: ________ Audit period: __________	Compliance Summary				Prepared by: ___________ Reviewed by: __________
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. Penalties shall be paid out of amounts made available to carry out the program for which the penalty is incurred. Type: Transaction-based Ref: 31 U.S.C. 3902(f)	2. Interest penalties are paid out of the appropriation used to pay related program expenditures.				See Compliance Audit Program 810 Steps 4(c), 5(c), and 6.
3. Discounts offered by a business concern may be taken only if payment is made within the specified time as determined from the date of the invoice. An interest penalty shall be paid on improperly taken discounts. Type: Transaction-based Ref: 31 U.S.C. 3904	3a. Discounts taken after the specified time period are identified. 3b. Interest penalties are properly calculated and paid on the amount of any improperly taken discounts using the appropriate interest rate and period.				See Compliance Audit Program 810 Step 5(a) and (b).

Note: Complete this program or prepare equivalent documentation only if provisions of the Prompt Payment Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

OMB Guidance on the Prompt Payment Act is included in 5 CFR Part 1315.

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 810 - Compliance Summary), select a sample of payments from throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02.) Document the sampling approach using the documentation in FAM section 495 E. See note 6 regarding sampling efficiencies and completeness of the population. Sample size ______________________ Sample selection method ______________		

Name of entity: ____________
Audit period: _______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
2. For each item selected in step 1, obtain the supporting documentation for the payment such as the invoice voucher package. (a) Document the following items in the documentation: • invoice number; • payee; • invoice amount; • invoice date; • invoice receipt date (or other date used for determining compliance with this law - see step 2 (b)); • payment date; • amount of interest penalty paid, if any; • amount of discount taken, if any; and • appropriation account(s) charged for the expenditure and interest penalty, if any.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
2. (b) For each item selected, note whether the payment was made by the required due date. The required due date may be the date specified in the contract or, if a date is not specified, 30 days after receipt of the invoice (31 U.S.C. 3903(a)(1)(A) and (B)). If payment is for meat or meat food products, perishable agricultural products, dairy products or construction contracts, consult with OGC to determine payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. (31 U.S.C. 3903(a)(2), (3), (4), and (6)) The invoice receipt date is the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed (unless the entity accepted the property or services before the 7th day or a longer acceptance period is specified in the contract). If the date of actual invoice receipt is not indicated, the entity must use the invoice date. (31 U.S.C. 3901(a)(4)(A) and (B)) If the payment was made prior to the payment due date, perform step 3. If the payment was made after the payment due date, perform step 4. If a discount was taken, perform step 5.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
3. If the payment was made prior to the payment due date, and no discount was taken, determine that no interest penalty was paid. (Note: If the entity did not take advantage of a discount for which it was eligible or if an interest penalty was paid when it was not owed, the auditor generally should determine the cause of these items for purposes of reporting findings.)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
4. If the payment was made after the payment due date, determine whether (a) an interest penalty was paid; (b) the amount of the interest penalty was properly calculated; and (c) the interest penalty was paid out of the appropriation used to pay the related expenditures. Review the accounting codes indicated on the expense voucher. Determine whether the accounting codes used to record the interest penalty are the same as those used for the related expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of amounts.) (31 U.S.C. 3902 (a), (b), and (f)) Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. See note 5. Investigate any instances when the proper appropriation account was not charged. See note 2 regarding the interest rate to be used. See notes 3 and 4 regarding the period the penalty should cover.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
5. If a discount was taken, determine whether it was taken during the specified period the discount was available. If the discount was taken during the specified period, further consideration is not necessary. If any discounts are taken after the appropriate time period, determine whether (a) an interest penalty was paid, (b) the amount of the interest penalty was properly calculated, and (c) the interest penalty was charged against the appropriation used for the related expenditures. Review the budget accounting codes indicated on the expense voucher. Determine whether the budget accounting codes indicated on the voucher for the interest penalty are the same as those used for the related expenditure. Determine whether the codes and amounts on the voucher agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of the budgetary amounts.) (31 U.S.C. 3902 (a), (b), and (f), and 31 U.S.C. 3904) Interest penalties should be calculated on the amount of the discount. The penalty accrues on the amount of the discount from the last date specified that the discounted amount may be paid (31 U.S.C. 3904). See note 2 regarding the interest rate to be used to calculate the interest penalty. (continued)		

Name of entity: ____________
Audit period: _______________ Reviewed by: _____________________

Audit Procedures	Done by/date	W/P ref
5. (continued) Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. Investigate any instances when the proper appropriation account was not charged.		
6. Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether interest penalties are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, the auditor should perform procedures to determine if the entity has properly summarized the expenditure balances as described in FAM 495 B.		

Name of entity: ____________
Audit period: _______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
7. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
8. Document conclusions on compliance with each provision on Form 810 - Compliance Summary.		

Note 1: The required due date is generally the date specified in the contract or, if a date is not specified, 30 days after receipt of the invoice (31 U.S.C. 3903(a)(1)(A) and (B)) If payment is for meat or meat food products, perishable agricultural products, dairy products or construction contracts, consult with OGC to determine payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. (31 U.S.C. 3903(a)(2), (3), (4), and (6))

The invoice receipt date is established as the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed, unless the entity accepted the property or services before the 7th day or a longer acceptance date is specified in the contract. If the date of actual invoice receipt is not indicated, the entity must use the invoice date. (31 U.S.C. 3901(a)(4)(A) and (B))

Note 2: Interest shall be calculated at the rate set by the Secretary of the Treasury under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611) that is in effect at the time the entity accrues the obligation to pay a late payment interest penalty. The rates are published in the *Federal Register*. (31 U.S.C. 3902(a))

Note 3: The interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made. (31 U.S.C. 3902(b))

An interest penalty not paid after any 30-day period shall be added to the principal amount of the debt, and a penalty accrues thereafter on the combined amount of principal and interest. (31 U.S.C. 3902(e))

Note 4: A payment is deemed to be made on the date a check for payment is dated or an electronic transfer is made. (31 U.S.C. 3901 (a)(5))

Note 5: The temporary unavailability of funds to make a timely payment due for property or services does not relieve the entity head of the obligation to pay interest penalties under this law. (31 U.S.C. 3902 (d))

Note 6: If multipurpose testing is used for the compliance test and/or compliance control test and/or a substantive test of payments details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test as described in FAM 430. Otherwise, the items should be selected using attribute sampling as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

812 - PAY AND ALLOWANCE SYSTEM FOR CIVILIAN EMPLOYEES, AS PROVIDED PRIMARILY IN CHAPTERS 51-59 OF TITLE 5, U.S. CODE

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51-59 of Title 5, U.S. Code, are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Pay for a specific position should be based on the appropriate pay schedule or pay rate. Type: Transaction-based Ref: 5 U.S.C. 5332, 5343, and 5383	1. Employees are paid at appropriate rates.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 812 Step 4(b).
2. Employer shall pay employees at least minimum wage. (See note 1.) Type: Transaction-based Ref: 29 U.S.C. 206	2. Employees are paid at least minimum wage. (See note 1.)				See Compliance Audit Program 812 Step 4(b).

Note: Complete this program or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51-59 of Title 5, U.S. Code, are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: __________
Audit period: ___________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
Note: These tests are closely related to procedures performed for substantive tests of payroll expense details. Use of multipurpose testing in this situation is strongly encouraged.		
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 812 - Compliance Summary), select an appropriate sample of disbursements from the payroll records throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 2 regarding sampling efficiencies and completeness of the population. Sample size __________________ Sample selection method _______________		

Name of entity: __________
Audit period: ____________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
2. For each item selected in 1, note the following information: • employee name; • pay period (number and dates); • amount of gross pay for the period; • pay rate; • total hours worked; and • number of hours worked at regular pay and other pay (i.e., overtime, premium pay, etc.).		
3. For each item selected in 1, obtain the employee's personnel file and note the following in effect for the pay period selected: • the employee's grade and step and • the employee's pay rate.		
4. For each item selected in 1, (a) Calculate the amount of gross pay using the hours worked and the employee's pay rate indicated on the payroll records. Compare the amount of gross pay calculated by the auditor to the amount shown on the payroll records for the selected pay period and obtain explanation and examine support for any differences. Note: To convert basic annual amount to a daily, weekly or biweekly amount, divide the annual rate by 2,087 for an hourly rate. Multiply the hourly rate by number of either daily hours, 40 for weekly, or 80 for biweekly amounts. (5 U.S.C. 5504)		

Name of entity: __________
Audit period: ____________ Reviewed by: _____________

Audit Procedures	Done by/date	W/P ref
4. (b) Compare the employee's pay rate in the payroll records to the appropriate pay rate for the employee's approved grade and step on the pay schedules established by executive order. (Use the approved grade and step indicated in the employee's personnel records for this test.) Obtain explanation and examine support for any differences between the actual pay rate for the period selected and the authorized amounts. (5 U.S.C. 5332, 5343, and 5383) If the employee's pay is not set by these pay schedules, determine whether the amount paid is properly authorized and whether the pay rate is at least minimum wage. (29 U.S.C. 206)		

Name of entity: __________
Audit period: ____________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
6. Document conclusions on compliance with each provision on Form 812 - Compliance Summary.		

Note 1: To convert basic annual amount to a daily, weekly, or biweekly amount, divide the annual rate by 2,087 for an hourly rate. Multiply the hourly rate by number of either daily hours, 40 for weekly, or 80 for biweekly amounts. (5 U.S.C. 5504)

Note 2: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 3: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT 201 (see FAM 660).

813 - CIVIL SERVICE RETIREMENT ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Civil Service Retirement Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: ________ Audit period: __________	Compliance Summary				Prepared by: ___________ Reviewed by: __________
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each employee employed prior to January 1, 1984, the entity shall withhold a percent of the basic pay of the employee. (See notes 1 and 2.) Type: Transaction-based Ref: 5 U.S.C. 8334(a)(1)	1. The appropriate amount is withheld from employee's pay. (See notes 1 and 2.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 813 Step 4(b).

Name of entity: ________ Audit period: __________		Compliance Summary			Prepared by: ___________ Reviewed by: __________
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. An amount equal to the amount withheld from the employee's pay shall be contributed by the entity from the appropriation or fund used to pay the employee. Type: Transaction-based and Quantitative-based Ref: U.S.C. 5 U.S.C. 8334(a)(1)	2. The entity contribution for employee retirement is calculated properly, summarized properly, and charged to the proper appropriation account or fund.				See Compliance Audit Program 813 Steps 4(c) and 5.
3. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. Type: Procedural-based and Quantitative based Ref: 5 U.S.C. 8334(a)(2)	3. Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Program 813 Steps 6 and 7.

Note: Complete this program or prepare equivalent documentation only if provisions of the Civil Service Retirement Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 813 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Civil Service Retirement Act system (CSRS). (See note 1.) (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 3 regarding sampling efficiencies and completeness of the population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for the Office of Personnel Management (OPM), per OMB audit guidance, if performed. Sample size __________________ Sample selection method ____________________		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits; • the amount of basic pay; and • if indicated in the payroll disbursement records, document the retirement plan under which the withholdings were made (CSRS or FERS). (Only employees covered by CSRS should be included in this compliance test. See FAM 817 for the FERS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the following: • employee hire date, • amount of basic pay, and • the retirement plan under which the employee is covered.		
4. For each selection made in 1, (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records and obtain an explanation and examine support for any differences. (This procedure would be performed only if not already performed as part of other testing.)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
4. (b) Calculate the amount of the withholdings for retirement costs based on 7 percent of basic pay for executive branch employees (see note 2 for percentages for other employees) for the selected pay period and document the amount in the documentation. Compare to the actual amount withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8334(a)(1))		
4. (c) Determine whether the entity contributed an equal amount for the employee's retirement for the selected pay period. Obtain explanation and examine support for any differences between the employee and entity contributions. (5 U.S.C. 8334(a)(1))		
5. Determine whether amounts contributed by the entity are charged to the appropriation or fund used to pay the employee for the selected pay period by performing the following procedures: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
5. (c) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as <u>effective</u> in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as <u>ineffective</u>, the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8334 (a)(1))		
6. Determine whether the entity has effective controls over the proper summarization of (a) the amounts withheld from employees for retirement costs under this law and (b) the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM and obtain an explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. (5 U.S.C. 8334(a)(2))		

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
8. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
9. Document conclusions on compliance with each provision on Form 813 - Compliance Summary.		

Note 1: Employees may be covered by the Civil Service Retirement Act (CSRS) or the Federal Employees' Retirement System Act (FERS), generally depending on their employment date.

Note 2: The percentage to be withheld for the service period after December 31, 2000, for (1) executive branch employees is 7 percent and (2) Congressional employees is 7.5 percent. The percentage to be withheld for the service period between January 1, 2001 and December 31, 2002, for Members of Congress is 8.5 percent. The percentage withheld for service after December 31, 2002, for Members of Congress is 8 percent. (5 U.S.C. 8334(a)(1))

Note 3: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 4: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT 201 (see FAM 660).

814 - FEDERAL EMPLOYEES HEALTH BENEFITS ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: ________ | Compliance Summary | Prepared by: ___________
Audit period: ___________ | | Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each full-time employee enrolled in a health benefits plan, a biweekly contribution shall be made by the entity in an amount determined by OPM for each type of insurance plan. (See note 1 for part-time career employees.) Type: Transaction-based Ref: 5 U.S.C. 8906(b)(1)	1. The amount of the entity contribution for health insurance benefits is calculated properly for employees who elect to enroll in a health benefits plan.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 814 Step 4(b).
2. For employees generally, the entity contribution for the cost of health insurance shall be paid from the appropriation or fund that is used to pay the employee. Type: Transaction-based and Quantitative-based Ref: 5 U.S.C. 8906(f)	2. Entity contributions for the cost of employee health insurance are summarized properly and charged to the proper appropriation account or fund.				See Compliance Audit Program 814 Step 4(c).

Name of entity: ________ Audit period: ___________	Compliance Summary			Prepared by: ___________ Reviewed by: __________	
Provision description	**Objective**	**Control activities**	**IS (Y/N)**	**Effective compliance controls?**	**Instances of noncompliance noted?**
3. An amount shall be withheld from the employee's pay to cover the total cost of enrollment in the health benefit plan selected by the employee after the amount of the entity contribution is subtracted. Type: Transaction-based Ref: 5 U.S.C. 8906(d)	3. Withholdings are made for the employee's share of the cost of health insurance and are calculated properly.				See Compliance Audit Program 814 Step 4(a).
4. Amounts withheld from employees and the sum contributed by the entity for health insurance costs shall be deposited in the Treasury to the credit of the Employees Health Benefits Fund. Type: Procedural-based and Quantitative-based Ref: 5 U.S.C. 8909	4. Withholdings from employees and entity contributions for health insurance costs are properly summarized and deposited in the Treasury to the credit of the Employees Health Benefits Fund.				See Compliance Audit Program 814 Steps 5 and 6.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: ____________
Audit period: ______________ Reviewed by: ____________

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 814 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 2 regarding sampling efficiencies and completeness of the population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size ______________________ Sample selection method ______________________		
2. For each selection made in step 1, document the employee, the pay period selected, and the amount withheld for the pay period selected, if any, for the cost of health insurance. If available, document the health plan enrollment code.		

Name of entity: ____________
Audit period: _______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
3. For each selection made in step 1, obtain the employee's personnel file and note whether the employee elected health insurance coverage for the period to which payroll disbursement relates. Such coverage should be indicated on OPM form SF 2809. If the employee did not elect health insurance coverage, ask why amounts are being withheld for the cost of insurance and determine whether any entity contributions are being made inappropriately as well.		
4. If the employee identified in step 3 elected coverage, perform the following steps: (a) Obtain the schedule of health insurance costs for all plans published by OPM. Using the enrollment code for the plan selected by the employee on OPM form SF 2809, calculate the employee's portion of the health insurance cost and record it in the documentation. Compare it to the amount actually withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8906(d))		
4. (b) For each employee in (a), determine the appropriate amount of the entity's contribution for its share of health insurance costs by using the OPM schedule of costs. Compare it to the amount actually contributed by the entity for the employee's health insurance for the selected pay period and obtain an explanation and examine support for any differences. (See note 1 for part-time career employees.) (5 U.S.C. 8906(b)(1))		

Name of entity: ____________
Audit period: ______________ Reviewed by: ________________

Audit Procedures	Done by/date	W/P ref
4. (c) For each employee in (b), determine if amounts contributed by the entity are charged to the appropriation or fund that is used to pay the employee for the selected pay period by performing the following procedures: (1) Review the accounting codes indicated on the supporting documentation. (2) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ______________

Audit Procedures	Done by/date	W/P ref
4. (c) (3) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as <u>effective</u> in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as <u>ineffective</u>, the auditor should <u>perform</u> procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8906(f))		
5. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for health insurance costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
6. Compare the total cost of health insurance on the entity's records (employee and employer portions) for the selected pay period to the deposit made to Treasury and the documentation sent to OPM and obtain an explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Employees Health Benefits Fund. (5 U.S.C. 8909)		

Name of entity: ____________
Audit period: ______________ Reviewed by: ________________

Audit Procedures	Done by/date	W/P ref
7. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
8. Document conclusions on compliance with each provision on Form 814 - Compliance Summary.		

Note 1: For part-time career employees, the biweekly entity contribution shall be calculated on a prorata basis based on the ratio of number of scheduled part-time hours to the number of scheduled regular hours for an employee serving in a comparable position on a full-time basis. (5 U.S.C. 8906(b)(3))

Note 2: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 3: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT 201 (see FAM 660).

816 - FEDERAL EMPLOYEES' COMPENSATION ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. If the agency receives a statement showing the costs of amounts paid from the Employees' Compensation Fund (the Fund), the agency shall include a request for an appropriation to cover such amounts during the next fiscal year when submitting its budget request. (See note 1.) Type: Procedural-based Ref: 5 U.S.C. 8147	1. The entity's budget request includes a request for an appropriation for any amounts paid by the Fund on the entity's behalf for the prior fiscal year.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 816 Step 1.

Name of entity: ________
Audit period: __________

Compliance Summary

Prepared by: ___________
Reviewed by: __________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. Amounts appropriated pursuant to the request (described in 1 above) shall be credited to the Fund within 30 days after they are available. (See note 2 for entities that are not dependent on annual appropriations.) Type: Procedural-based Ref: 5 U.S.C. 8147	2. Appropriations received for the costs of amounts paid out of the Fund on behalf of the entity are credited to the Fund within 30 days after they are available.				See Compliance Audit Program 816 Step 1.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary for this law.

Name of entity: ____________
Audit period: ______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
Note: The provisions identified for testing are procedural-based provisions. As discussed in FAM 460.06, sufficient procedures usually are performed in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. Additional procedures should not be performed to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 816 - Compliance Summary.		
1. Reference to conclusions on compliance controls on Form 816 - Compliance Summary and indicate whether any additional procedures are necessary.		

Name of entity: ____________
Audit period: ______________ Reviewed by: ___________________

Audit Procedures	Done by/date	W/P ref
2. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
3. Document conclusions on compliance with each provision on Form 816 - Compliance Summary.		

Note 1: A statement showing the total cost of benefits and other payments made from the Employees' Compensation Fund during the preceding July 1 through June 30 expense period on account of the injury or death of employees or individuals under the jurisdiction of the entity is required to be provided by the Secretary of Labor to the entity by August 15 of each year. (5 U.S.C. 8147)

Note 2: Entities not dependent on an annual appropriation shall make the required deposit to Treasury from funds under its control during the first 15 days of October after receipt of the statement showing the costs paid on the entity's behalf. (5 U.S.C. 8147)

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817 – FEDERAL EMPLOYEES' RETIREMENT SYSTEM ACT OF 1986

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act of 1986 are considered significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: ______________________
Audit period: ______________________

Compliance Summary

Prepared by: ________________
Reviewed by: ________________

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each employee employed after December 31, 1983, the entity shall withhold 0.8% of the basic pay of the employee. (See notes 1 and 2.) Type: Transaction-based Ref: 5 U.S.C. 8401(11), 5U.S.C. 8422(a)(1)	1. The appropriate amount is withheld from employee's pay. (See notes 1 and 2.)	[Document the control techniques used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 817 Step 4(b).

Name of entity: ____________ Audit period: ____________		Compliance Summary			Prepared by: ____________ Reviewed by: ____________
Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. An amount equal to the employing agency's applicable normal cost percentage less the employee deduction rate shall be contributed by the entity from the appropriation or fund used to pay the employee. (See note 3.) Type: Transaction-based and Quantitative-based Ref: 5 U.S.C. 8423(a)(1) and 5 U.S.C. 8401(23)	2. The entity contribution for employee retirement is calculated properly, summarized properly, and charged to proper appropriation account or fund. (See note 3.)				See Compliance Audit Program 817 Steps 4(c) and 5.
3. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. Type: Procedural-based and Quantitative based Ref: 5 U.S.C. 8422(c)	3. Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Program 817 Steps 6 and 7.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act of 1986 are considered significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on form 817 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Federal Employees' Retirement System (FERS). (See note 1.) (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 4 regarding sampling efficiencies and completeness of the sample population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size ____________________ Sample selection method ____________________		

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits, • the amount of basic pay, and • if indicated in the payroll disbursement records, document the retirement plan under which the withholdings were made (CSRS or FERS). (Only employees covered by FERS should be included in this compliance test. See FAM 813 for the CSRS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the following: • employee hire date, • amount of basic pay, and • the retirement plan under which the employee is covered.		
4. For each selection made in 1, (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records and obtain an explanation and examine support for any differences. (This procedure would be performed only if not already performed as part of other testing.)		

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ____________________

Audit Procedures	Done by/date	W/P ref
4. (b) Calculate the amount of the withholdings for retirement costs based on 0.8% of basic pay for most employees (see note 2 for percentages for certain employees) for the selected pay period and record the amount in the documentation. Compare to the actual amount withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8422(a)(1))		
4. (c) Determine whether the entity contributed the correct amount for the employee's retirement for the selected pay period. Obtain an explanation and examine support for any differences between the entity contributions and the amount calculated using OPM's normal cost percentage. (5 U.S.C. 8423(a)(1) and 5 U.S.C. 8401(23))		

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ________________

Audit Procedures	Done by/date	W/P ref
5. Determine if amounts contributed by the entity are charged to the appropriation or fund used to pay the employee for the selected pay period by performing the following procedures: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree to those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.) (c) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as <u>effective</u> in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as <u>ineffective</u>, the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8423(a)(1))		

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ________________

Audit Procedures	Done by/date	W/P ref
6. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for retirement costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM and obtain explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. (5 U.S.C. 8422(c) and 5 U.S.C. 8401(6))		

Name of entity: ____________________
Audit period: ____________________ Reviewed by: ________________

Audit Procedures	Done by/date	W/P ref
8. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the conclusion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
9. Document conclusions on compliance with each provision on Form 813 - Compliance Summary.		

Note 1: Employees may be covered by the Civil Service Retirement Act (CSRS) or the Federal Employees' Retirement System Act (FERS), generally depending on their employment dates.

Note 2: For most employees, the percentage to be withheld is 0.8 percent (7 percent less the Social Security tax rate). For congressional employees, Members of Congress, and law enforcement officers, firefighters, air traffic controllers, and nuclear materials couriers, the withholding rates are higher. (See 5 U.S.C. 8422(a)(1).).

Note 3: The Office of Personnel Management (OPM) computes the normal cost percentage. For FY 2002, it is 11.5 percent for regular employees. For congressional employees, Members of Congress, and law enforcement officers, firefighters, air traffic controllers, and nuclear materials couriers, the normal cost percentages are higher. OPM lists the percentages in its Benefits Administration Letters, accessible on its Internet site, http://www.opm.gov/asd/htm/bal01.htm (where the 2 digits after "bal" represent the calendar year of the letters). (5 U.S.C. 8401(23))

Note 4: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 5: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT 201 (see FAM 660).

SECTION 900

Substantive Testing

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902 - RELATED PARTIES, INCLUDING INTRAGOVERNMENTAL ACTIVITY AND BALANCES

.01 This section provides detailed guidance on the procedures that the auditor should perform with respect to related parties, as described in FAM sections 280 and 550. AU 334 (SAS No. 45) provides general guidance on the procedures that should be performed to identify related party relationships and transactions so that the auditor may satisfy him or herself that they are appropriately accounted for and disclosed. In addition, the American Institute of Certified Public Accountants (AICPA) has issued a toolkit for accountants and auditors titled*, Accounting and Auditing for Related Parties and Related Party Transactions*[1]. This toolkit includes selected authoritative accounting and auditing literature, an illustrative audit program, disclosure checklist, confirmation letter, and letter to other auditors and is available at the AICPA's website: http://www.aicpa.org/news/relpty1.htm.

.02 The federal government in its entirety is an economic entity. Federal entities are components of the U.S. government; therefore, transactions between federal entities are considered intragovernmental. Within the federal government, many reporting entities rely on other federal entities to help them achieve their missions and fulfill their operating objectives. These arrangements may be voluntary, stipulated by law, or established by mutual agreement of the entities involved and may not be carried out on an arm's-length basis. In many cases, the entity receiving goods or services will reimburse the providing entity in accordance with some agreed-upon price, which may or may not represent market value. Often, however, one entity provides goods or services to another entity free of charge (without reimbursement). For example, the General Services Administration, in some cases, provides property management services and contract award and administration to other entities without charge.

.03 In addition, certain federal entities can significantly influence the operating policies of the transacting entities. For example, the Office of Management and Budget (OMB) provides policy and/or general management guidance to other federal entities, and the Office of Personnel Management (OPM) helps federal entities recruit nationwide and sets human resources management rules with the

[1] These tools are based on the best practices guidance received from the participating accounting and auditing firms and the AICPA publication, Practice Alert No. 95-3, *Auditing Related Parties and Related Party Transactions,* which is available at http://www.aicpa.org/members/div/secps/lit/practice/953.htm.

federal entities' involvement; administers the systems for setting federal compensation and benefits; manages federal employee health and life insurance programs; and operates the retirement program for federal employees.

.04 Thus, in the federal government, the most significant related parties are other federal government entities. Other possible related parties outside of the federal government include states, members of the entity's management, and individuals and firms with which members of management may be related.

.05 The auditor should consider the possible existence of related parties with material activity and balances that could affect the financial statements, including intragovernmental activity and balances. The identification of related parties and activity and balances is important because of (1) the requirement under U.S. generally accepted accounting principles to disclose material related-party transactions and certain control relationships, (2) the instances of fraudulent financial reporting and misappropriation of assets that have been facilitated by the use of an undisclosed related party, and (3) the potential for distorted or misleading financial statements in the absence of adequate disclosure.

.06 The reason for disclosing related party information is that financial statement users may need that information to make informed judgments. As stated above, if parties are related, the transactions between them may not be based on an arm's-length relationship. For example, certain goods or services may be donated or be at an amount that does not represent market value, thus affecting the cost of the receiving entity's operations. In addition, if the entity has transactions with another entity based on a common control situation, such as when the entity controls or can significantly influence the management or operating policies of the transacting entity, the users of financial statements should know the nature of the relationship since this control relationship could result in operating results or financial positions significantly different from those that would have been achieved in the absence of such relationship.

.07 Disclosures generally should include the nature of the relationship between the entity and its related parties, a description of the transactions, including donations, dollar amounts of transactions that occurred during the period, and amounts due to or from related parties as of the end of the period. Disclosures could include aggregation of similar transactions by type. In cases of common control relationships, the nature of the control relationship generally should be disclosed even if there are no transactions between the entities. Disclosure of related party transactions is not required for transactions between components of the audited entity that are eliminated in consolidation. However, if separate statements of the components are issued, the disclosures should be presented in the separate component statements.

.08 The following paragraphs discuss intragovernmental activity and balances, then other related parties.

INTRAGOVERNMENTAL ACTIVITY AND BALANCES

.09 Intragovernmental amounts represent activity and balances within or between federal entities. Intradepartmental amounts are activity and balances within the same department (a department here means any department, agency, administration or other entity designated by OMB as a financial reporting entity that is not part of a larger financial reporting entity other than the government as a whole). Interdepartmental amounts are activity and balances between two different departments. The intradepartmental and interdepartmental amounts are subsets of intragovernmental activity and balances.

.10 Intragovernmental activity includes:

- Intragovernmental fiduciary transactions such as

  - •• Transactions with the Department of Labor (Labor) relating to the Federal Employee's Compensation Act, including routine payments to Labor;

  - •• Transactions with the OPM relating to employee benefit programs (the Federal Employees' Retirement System, the Civil Service Retirement System, and federal employees' life insurance and health benefits programs) including routine payments, imputed financing, and accruals;

  - •• Investments in federal securities issued by Treasury's Bureau of the Public Debt, including interest accruals, interest income and expense, and amortization of premiums and discounts; and

  - •• Borrowings from the Treasury and the Federal Financing Bank, including interest accruals, interest income, and expenses;

- Goods and services provided from one federal entity to another (trade transactions) including any related revenues earned, costs incurred, and reimbursable costs (including both interdepartmental and intradepartmental activity);

- Transfers between entities based on agreements or legislative authority, expended appropriations, taxes and fees collected, collections for others, accounts receivable from appropriations, transfers payable, and custodial revenue (including both interdepartmental and intradepartmental activity); and

- Imputed costs such as fiduciary transactions with OPM and Labor mentioned above and costs of litigation paid by the judgment fund (including both interdepartmental and intradepartmental activity).

.11 Activity and balances between federal entities (interdepartmental transactions) should be eliminated at the U.S. Government's Consolidated Financial Statements level, while the activity and balances within the same department (intradepartmental) should be eliminated at the department's consolidated financial statements level.

Accounting and Reporting Guidance

.12 In accounting for and reporting of related parties, including intragovernmental activity and balances, the entity should refer to Statements of Federal Financial Accounting Standards (SFFAS), Statements of Financial Accounting Standards, OMB guidance, and Treasury guidance. The following paragraphs illustrate these relevant documents.

.13 SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*, and related interpretations address the accounting standards for interentity cost activities. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, addresses interentity liabilities, including federal debt, pensions and retirement benefits. Also, SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, addresses interentity revenue and requires disclosure of the nature of intragovernmental exchange transactions in which an entity provides goods or services at a price less than full cost or does not charge a price at all. The reporting entities should also consult with the funding and administering agencies, such as OPM, for information needed to properly record interentity costs. Note that SFFAS No. 4 directs OMB to designate the costs of goods and services received from other departments that should be recognized, which it has done in the guidance mentioned below.

.14 Statement of Financial Accounting Standards No. 57, *Related Party Disclosures,* defines related parties and provides examples of related party transactions and general guidance on disclosures of transactions between related parties. Footnote disclosures generally should include disclosure of the nature of the relationship between the entity and its related parties, a description of the transactions, including donations, dollar amounts of transactions that occurred during the period, and amounts due to or from related parties as of the end of the period.

.15 The OMB bulletin titled *Form and Content of Agency Financial Statements* indicates that federal entities should:

- Present intragovernmental amounts by trading partner (reciprocal federal entity) as required supplementary information (RSI). Intragovernmental asset and liability categories reported as RSI should agree with the intragovernmental asset and liability line items reported on the balance sheet. The intragovernmental RSI may be limited to the consolidated departmentwide financial statements of the Chief Financial Officers (CFO) Act departments and agencies covered by the form and content bulletin. The intragovernmental RSI reporting requirement does not extend to federal components that are required to prepare financial statements. All amounts should be net of intraentity transactions.

- Reconcile intragovernmental asset, liability, and revenue amounts reported as RSI with their trading partners; and

- Report intragovernmental gross cost to generate earned revenue from trade transactions, as well as total entity gross cost and earned revenue, by budget functional classification.

OMB also has issued a memorandum titled *Business Rules for Intragovernmental Transactions* that requires agencies to use the same methodology in accounting for certain intragovernmental transactions, which should help in reconciliation.

.16 To emphasize the agency management's responsibility for identifying intragovernmental activity and balances and reconciling data with relevant trading partners, the entity should include specific representations in the management representation letter that intragovernmental, including intradepartmental, transactions have been properly accounted for, reconciled with trading partners, and disclosed (see FAM section 1001). If such disclosure is included in the financial statements and the auditor believes that the disclosure is not supported by management, or if management refuses to disclose related party transactions, the auditor generally should give a qualified or adverse opinion because of the inadequate disclosure, depending on materiality, and include the necessary disclosures in a separate paragraph in the audit report.

.17 *Treasury Financial Manual* (TFM) section "Federal Intragovernmental Transactions Process" and the *Federal Intragovernmental Transactions Accounting Policies Guide* (Guide) provide governmentwide procedures for federal entities to account for and reconcile transactions occurring within and between each other. The procedures in these guides do not apply to transactions between federal entities and nonfederal entities. The TFM and the Guide are available at the Treasury/Financial Management Service's (FMS) websites (http://fms.treas.gov/tfm/vol1/v1p2c400.html and http://www.fms.treas.gov/cfs/dev/index.html).

.18 The TFM includes procedures for CFO Act departments to reconcile and confirm with their trading partners intragovernmental activity and balances as of and for the fiscal year ended September 30. Each department's CFO is to provide the department Inspector General (IG) with representations indicating whether the department completed the reconciliation. In addition, the department is to describe noncompliance with the reconciliation requirements. (See TFM.) These CFO representations should be included in the management representation letter (see above).

.19 The Guide provides detailed guidance on accounting and reconciling intragovernmental balances. According to the Guide, federal entities should identify trading partners[2] for all intragovernmental transactions and accumulate detail and summary information for each activity by trading partner from their accounting records. The trading partner code may be incorporated (1) as part of account coding classification or (2) in the customer/vendor identification code in accounts receivable and payable systems. These codes are the same as the Treasury index agency code used by the Treasury to prepare the governmentwide consolidated financial statements. If the two-digit Treasury index agency code is not adequate to identify the trading partner, entities may expand the partner code to components below the department level and communicate these codes to their trading partners.

.20 Federal entities also should use *Standard General Ledger* (SGL) account attributes to indicate the nature of account balances and to identify intragovernmental transactions. For example, the federal "F" and nonfederal "N" attributes used in conjunction with an SGL account in the Federal Agencies' Centralized Trial Balance System (FACTS) I submissions enable Treasury/FMS to prepare elimination entries for the governmentwide financial statements. When the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.

Audit History

.21 Prior years' audits of several federal entities' financial statements have identified instances where entities did not identify, summarize, or reconcile

[2] Trading partners are agencies, bureaus, programs or other entities (within or between entities) participating in transactions with each other.

intragovernmental activity and balances by trading partner. Controls over the intragovernmental transactions were not adequate. For example, one department instructed its components to make buyer's intragovernmental transaction amounts agree with seller's information without requiring an adequate reconciliation or verification if goods or services were provided. Similar issues were also identified concerning activity and balances within the same entity (intradepartmental). Accordingly, there was no assurance that the entity records contained fairly stated balances.

Intragovernmental Payment and Collection (IPAC) System[3]

.22 IPAC is the primary method used by most federal entities to electronically bill and/or pay for services and supplies within the government, and to communicate to the Treasury and the trading partner agency that the online billing and/or payment for services and supplies has occurred. IPAC, however, is not intended to be a control over the intragovernmental transactions (reciprocal accounts). The auditor should understand that IPAC was not designed as an accounting system and does not require trading partners to record transactions at the same time or in the same amounts. In addition, unreconciled IPAC differences could affect the existence and completeness of intragovernmental activity and balances.

.23 The IPAC billing entity initiates an IPAC transaction either as a collection or a payment. The IPAC customer entity receives an IPAC transaction either as a payment or a collection. Monthly, the Treasury compares the customer and billing entities' Statement of Transactions with the IPAC data. If there is a difference, a Statement of Differences, including a detailed list of all transactions charged or credited to a particular agency location code, is generated monthly. Entities should investigate the differences and make any necessary corrections on their next Statement of Transactions.

.24 The auditor should examine the entity's IPAC reconciliation procedures to determine if the entity performs the reconciliation and researches and resolves differences reflected on the statement of differences properly and timely. The auditor may coordinate with the Fund Balance with Treasury (FBWT) procedures to assess the effectiveness of the entity's IPAC reconciliation.

.25 The auditor should also design procedures to understand whether the entity uses other systems (standard forms used to transfer funds between appropriations, credit cards, and others) in addition to the IPAC system to process intragovernmental activity and balances. The auditor should determine whether

3 The Intragovernmental Payment and Collection (IPAC) system replaced the Online Payment and Collection (OPAC) system in December 2001.

these systems affect the fairness of intragovernmental activity and balances. (See audit procedures below and FAM section 902 C.)

Audit Procedures

.26 The auditor should consider audit risk and materiality in determining the nature, timing, and extent of procedures for auditing intragovernmental activity and balances and in evaluating the results of these procedures. Throughout the audit, the auditor should consider the possible existence of material intragovernmental activity and balances that could affect the financial statements. The auditor should evaluate all the information available concerning material intragovernmental activity and balances and determine that the financial statement disclosures are adequate and appropriate.

.27 During the planning phase, the auditor should assess inherent, fraud, and control risk. In assessing the inherent risk related to intragovernmental activity and balances, there are several conditions that the auditor should consider. For example, inherent risk may exist because of the nature of the intragovernmental activity, such as a significant volume of transactions and number of trading partners or complex transactions. The auditor should assess the impact of inherent and control risk on control testing and substantive testing. The auditor should determine whether similar conditions continue to exist and understand management's response to such conditions.

.28 In assessing inherent and control risk, the auditor should obtain an understanding of management responsibilities and the relationship of each component to the total department and of each department to other departments. The auditor should obtain an understanding of the entity's operations to identify, respond to, and resolve accounting and auditing problems early in the audit. For example, the auditor should know what trading partners the entity has, the nature of intragovernmental transactions that occur, the volume and dollar amount of transactions, and management's attitude and awareness with respect to reconciliations of intragovernmental activity and balances.

.29 The auditor should assess the effectiveness of the entity's internal control over intragovernmental activity and balances. The auditor should identify the policies and procedures that pertain to the entity's ability to record, process, summarize, and report intragovernmental activity and balances by trading partner. The agency should emphasize the importance of identifying and classifying intragovernmental transactions by trading partner when they are initiated and on all documentation thereafter; without this initial identification, the system will not be able to keep track of them.

.30 Without proper and timely reconciliation of intragovernmental activity and balances, misstatements in these account balances at the component and/or department level could materially affect the balances at the governmentwide level (as well as at the department or component level). In addition, when preparing consolidated financial statements, the preparer must eliminate intragovernmental activity and balances within and between departments or components. Because the amounts reported for entity trading partners for certain intragovernmental accounts could be significantly out of balance, the preparer would not be able to eliminate these accounts in the consolidated financial statements. The auditor may advise the entity about the need for monthly confirmation and reconciliation of these transactions with trading partners. Annual or quarterly reconciliations are generally not sufficient to detect and resolve misstatements promptly.

.31 If the auditor determines that the entity's reconciliation control for intragovernmental transactions is not effectively designed and placed in operation, the auditor should consider the effect on the financial statements. Where intragovernmental transactions are or could be material, significant additional work is usually necessary to express an unqualified opinion. In some cases where the auditor finds material weaknesses in the intragovernmental reconciliation control and no other mitigating controls exist, the auditor may decide to modify the audit opinion (see FAM section 580).

.32 The TFM contains agreed-upon procedures for the department inspectors general to perform for federal intragovernmental activity and balances. These procedures are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of department and governmentwide financial statements and reports. The IG should perform these procedures regardless of the opinion on the department consolidated financial statements.

.33 To avoid duplicate procedures, the auditor should consider the agreed-upon procedures contained in the TFM when designing the tests for intragovernmental activity and balances. Examples of the account risk analysis (ARA), specific control evaluation (SCE), and audit procedures for the audit of intragovernmental activity and balances are in sections 902 A, 902 B, and 902 C. The ARA, SCE(s), and audit procedures generally should be customized for the particular entity. For example, if the auditor determines that the intragovernmental accounts receivable line item is significant, the auditor generally should prepare a separate ARA, SCE(s), and audit procedures for the intragovernmental accounts receivable account and its related accounting applications. (Note that a single SCE for a line-item/account-related accounting application is presented. There are likely transaction-related accounting applications listed on the ARA that also would have SCEs.) In addition, to improve efficiency, the auditor may coordinate tests of intragovernmental activity and balances with tests of nonfederal activity and balances.

OTHER RELATED PARTIES

.34 To effectively plan and perform an audit, the auditor should understand the entity's organization and its characteristics. The auditor should consider the possible existence of other related parties and other related party transactions throughout the audit to satisfy him or herself that they are properly accounted for and disclosed (see paragraph 902.07). Other related parties may include states that federal entities made payments to in carrying out or executing their federal programs. Examples of these programs are Department of Health and Human Services grants to states for Medicaid,[4] Department of Transportation Federal Highway Administration programs such as federal aid for highways and highway safety construction programs, and Department of Labor State Unemployment Insurance and Employment Service Operations.

.35 The auditor may attempt to detect these relationships by inquiry of management, reviewing major contracts/agreements, and reading financial disclosure statements. The documentation generally should include the names of related parties so all audit staff may become aware of transactions with them. Work done to test transactions with such parties may be coordinated with sensitive payments work, as discussed in paragraph 280.05.

.36 In addition to the procedures on related parties, the auditor also generally should inquire about other parties that may not be related parties, but that the agency may wish to disclose because of a public perception that they might be related, although professional standards do not require disclosure if the parties are not related (as defined in AU 334). Section 902 C shows examples of audit procedures for other related parties as well as for intragovernmental activity and balances. The steps should be customized for the particular audited entity.

PRACTICE AIDS

.37 The following practice aids are appended:

- Section 902 A – Example Account Risk Analysis (ARA),
- Section 902 B – Example Specific Control Evaluation (SCE), and
- Section 902 C – Example Audit Procedures

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4 Medicaid assists states in providing medical care to their low-income populations by granting federal matching payments under the Social Security Act to states with approved plans.

902 A - EXAMPLE ACCOUNT RISK ANALYSIS FOR INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Entity: Agency		Preparer: ______
Date of Financial Statements: September 30, 20xx	**ACCOUNT RISK ANALYSIS FORM**	Region: ______
Line Item: Intragovernmental balances	File: ______	Date: ______ Page 1 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
Intragov-ernmental assets, liabilities, revenues, expenses		**Existence or occurrence** Recorded intragovernmental balances do not exist.	Inherent risk arises from (1) the nature of intra-governmental transactions, which is susceptible to errors because of the signi-ficant high volume of trans-actions (and dollar amounts) and number of multiple reporting entities/ trading partners, and (2) prior years' significant	<u>Cycles</u> Revenues, Expenses, various <u>Accounting applications</u> Receipts, Disburse-ments, Accounts Receivable,				F	Confirm balances with trading partners. Review the reconciliation of intragovernmen-tal accounts by trading partners and reconciling items. Verify that	III.A & B.1.c III.A

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: ____________

Preparer: ____________

Region: ____________

Date: ________ Page 2 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
			audit adjustments relating to intragovernmental transactions. Control risk arises from (1) prior years' material weaknesses in accounting and reporting where the agency was not able to identify, classify, and summarize intragovernmental transactions by trading partners, and (2) management's attitude in not enforcing the reconciliation procedures.	Accounts Payable, various					the reconciliation was reviewed. Determine if adjustments made to accounts are proper and timely.	
									Review elimination entries and verify that they were reviewed.	III.E
									Review pre-arranged trading partner agreements.	I.4

Entity: Agency		Preparer: ________
Date of Financial Statements: September 30, 20xx	**ACCOUNT RISK ANALYSIS FORM**	Region: ________
Line Item: Intragovernmental balances	File: ________	Date: ________ Page 3 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		Completeness	Same as existence above, and control risk also arises from the lack of management's oversight relating to the intragovernmental transactions and balances adjustments made to the financial statements and required supplementary information.	Same as existence above				F	Same as existence above. Review customer and vendor files and receipt/ disbursement records for related parties. Test cut-off: search for unre-corded trans-actions (e.g., review trans-actions after yearend to	Same as above. I.4 & III.B to D III.B.1. d

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: ____________

Preparer: ____________

Region: ____________

Date: ________ Page 4 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
									determine if they were recorded in the correct fiscal year).	
									Review the results of FBWT accounts recon-ciliation, specifi-cally with unre-conciled IPAC transactions and suspense accounts.	III.B.1.d
									Review results of AUP related to	IV.5

Entity: Agency		Preparer: ____________
Date of Financial Statements: September 30, 20xx	**ACCOUNT RISK ANALYSIS FORM**	Region: ____________
Line Item: Intragovernmental balances	File: ________	Date: ________ Page 5 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective- ness of control activities	Con- trol risk	Com- bined risk	Tim- ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
									employee benefits and FACTS I verification.	
		Valuation or allocation Intragovernmental balances are not valued accurately or on an appropriate basis in the financial statements.	Same as existence above	Same as existence above				F	Same as existence and completeness. Review basis of pricing signifi- cant intragovern- mental transac- tions for approp- riate disclosure.	Same as above. I.4.a.ii & iii & IV.1 & 2

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: ____________

Preparer: ____________________.

Region: ____________________.

Date: __________ Page 6 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		Rights and obligations The agency does not have rights to recorded intragovernmental balances.	Same as existence above	Same as existence above				F	Review confirma-tions for indica-tion of any disputes. Review pre-arranged agree-ments between trading partners. Review manage-ment and legal representation letters to determine if any obligations are not properly disclosed.	I.4.a.ii & III.A-B I.4.a.iv IV.3

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: ____________

Preparer: ____________

Region: ____________

Date: ________ Page 7 of 7

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		Presentation and disclosure Intragovernmental balances are not properly classified or disclosed in the financial statements, or based on a consistent application of accounting guidance.	Same as existence and completeness above	Same as existence above				F	Determine if the agency appropriately classifies, summarizes, and discloses, intragovernmental accounts in financial statements, related disclosures, and RSI, in accordance with SFFAS (GAAP) and OMB and Treasury guidance for intragovernmental accounting.	I.2 & IV

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902 B - EXAMPLE SPECIFIC CONTROL EVALUATION FOR INTRAGOVERNMENTAL ACCOUNTS

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ____________	Preparer: ________________ Region: ________________ Date: _________ Page 1 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
Existence or occurrence	various	various	**Substantiation** 1. Recorded intragovernmental assets and liabilities do not exist at a given date.	1a. Recorded intragovernmental assets and liabilities should exist at a given date.	1. Quarterly, intragovernmental balances recorded in the agency's general ledgers are confirmed and reconciled with trading partners.	N		II.1.g-i
					2. The agency and trading partners work together to exchange data/ correct errors promptly concerning the intragovernmental balances.	N		II.1.g-i

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ______ Page 2 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
					3. Reconciliation adjustments and supporting documents are reviewed and approved by authorized personnel before being entered in the general ledgers.	N		III.A.1-7
					4. Reconciliation between intragovernmental general ledger balances and subsidiary ledger balances are performed quarterly and reviewed by supervisory personnel.	Y		III.A.1-7

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ____________	Preparer: ______________. Region: ______________. Date: _________ Page 3 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
				1b. Recorded intragovernmental assets and liabilities of the entity, at a given date, should be supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1. Same as 1a. above.			Same as above.
					2. The agency maintains the transaction logs and detailed records of transactions to facilitate the reconciliation process and to provide sufficient information for the location of the supporting documents.	Y		II.1.1
				1c. Access to intragovernmental assets, critical forms, records, and processing and storage areas should be permitted only in accordance with laws, regulations, and management's policy.	1. The agency's critical forms and records are protected by safes and locks, guards, cameras, alarm systems, and backup of electronic data.	Y		Example control tests are omitted from the example audit pro-cedures.
					2. Changes made to the trading partner codes file are restricted to authorized accounting personnel.	Y		

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ________ Page 4 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
Completeness	various	various	**Account Completeness** 2. Intragovernmental assets and liabilities of the entity exist but are omitted from the financial statements.	2. All intragovernmental accounts that belong in the financial statements should be so included. There should be no undisclosed assets or liabilities.	Same as existence above.			Same as above.
					1. The agency reviews all transactions to identify and properly code intragovernmental transactions.	Y		II.1.a-f
					2. The agency reconciles and resolves IPAC differences (and differences from other systems/ methods, if any, used to process intragovernmental transactions) promptly and records adjustments properly.	Y		II.2 & III.B.1.c
					3. Supervisory personnel review and approve monthly account analyses of intragovernmental accounts and examine budget-to-actual and trend analyses.	Y		II.1.m

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______. Region: ______. Date: ______ Page 5 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					4. Elimination journal entries and supporting documentation are reviewed and approved by authorized personnel.	N		II.1.k & III.E
					5. Elimination entries are supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.	Y		II.1.k & III.E

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______ Region: ______ Date: ______ Page 6 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
Valuation or allocation	Valuation or allocation	Valuation or allocation	**Valuation** 3. Intragovernmental assets and liabilities included in the financial statements are valued on an inappropriate basis.	3. Intragovernmental assets and liabilities included in the financial statements should be valued on appropriate valuation bases.	Same as existence and completeness above.			Same as above.
					1. The agency periodically evaluates the condition and marketability of intragovernmental assets, for example receivables are evaluated for collectibility.	N		I.4.a.ii & iii
					2. The agency accounting records are compared with the assessed values such as independent appraisals or assets.	N		I.4.a.ii & iii

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______ Region: ______ Date: ______ Page 7 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
			Measurement 4. Intragovernmental revenues and expenses included in the financial statements are measured improperly.	4. Intragovernmental revenues and expenses included in the financial statements should be properly measured.	Same as existence and completeness above.			Same as above.
Rights and obligations	Rights and obliga-tions	Rights and obliga-tions	**Ownership** 5. Recorded intragovernmental assets are owned by others because of sale, or other contractual arrangements.	5. Recorded intragovernmental assets should be owned by the entity.	Same as existence and completeness above.			Same as above.

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ________ Page 8 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Rights 6. The entity does not have certain rights to recorded intragovernmental assets because of certain restrictions.	6. Intragovernmental assets should be the entity's rights at a given date.	Same as existence and completeness above.			Same as above.
			Obligations 7. The entity does not have an obligation for recorded intragovernmental liabilities at a given date.	7. Intragovernmental liabilities should be the entity's obligations at a given date.	Same as existence and completeness above.			Same as above.

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ________ Page 9 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref, control testing step
	various	various						
Presentation and disclosure	Presentation and disclosure	Presentation and disclosure	**Account classification** 8. Intragovernmental accounts are not properly classified and described in the financial statements.	8. Intragovernmental accounts should be properly classified and described in the financial statements.	1. The agency uses trading partner codes to identify and track trading partners when the intragovernmental transactions are initiated and on all documentation thereafter.	Y		II.1
					2. The agency uses SGL account attributes to identify the nature of account balances and to identify intragovernmental transactions by trading partner.	Y		II.1
					3. The agency classifies, summarizes, and reports intragovernmental accounts by trading partner and presents them as required supplementary information (RSI).	Y		IV.1

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: ____________

Preparer: ______________

Region: ______________

Date: __________ Page 10 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					4. The CFO staff checks that the intragovernmental asset and liability categories reported as RSI agree with the intragovernmental asset and liability line items reported on the balance sheet.	N		IV.1
					5. The agency discloses intragovernmental gross cost and earned revenue by budget functional classification as required by OMB	Y		IV.1
			Consistency 9. The financial statement components are based on accounting principles different from those used in prior periods.	9. The financial statement components should be based on accounting principles that are applied consistently from period to period.	See # 8 above.			Same as above.

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ______ Page 11 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Disclosure 10. Required information is not disclosed in the financial statements or in the notes thereto.	10. The financial statements or notes should contain all information required to be disclosed.	See # 8 above.			Same as above.

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902 C -EXAMPLE AUDIT PROCEDURES FOR INTRA-GOVERNMENTAL AND OTHER RELATED PARTIES' ACTIVITY AND BALANCES

Entity____

Period of financial statements_____________________________

Job code____

Audit Procedures[1]	Done by/date	W/P ref.
I. Planning Phase Obtain an understanding of the entity's operations that are significant to the audit of intragovernmental and other related party activity and balances (see FAM section 220). 1. To obtain an understanding of significant accounting and auditing issues, read the entity's prior year's accountability and auditors' reports.		
2. To identify the entity's accounting and reporting requirements and applicable auditing standards for intragovernmental and other related party activity and balances, read the following: a. SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards;* SFFAS No. 5, *Accounting for Liabilities of the Federal Government;* SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;* Statement of Financial Accounting Standards No. 57, *Related Party Disclosures;* AU Section 334, *Related Parties;* AU Section 558, *Required Supplementary Information*; OMB bulletin on *Form and Content of Agency Financial Statements;* Treasury/ Financial Management Service's (FMS) *Federal Intragovernmental Transactions Accounting Policies Guide;* and *Treasury Financial Manual* section "Federal Intragovernmental Transactions Process."		

[1] These procedures are applicable for intragovernmental (including interdepartmental and intradepartmental) and other related parties' activity and balances.

Audit Procedures[1]	Done by/date	W/P ref.
b. The entity's internal procedures for identifying, accounting, reconciling and reporting intragovernmental and other related party activity and balances.		
c. The entity's process for identifying, classifying, and reporting intragovernmental activity and balances requiring elimination at the consolidated departmentwide or governmentwide level.		
3. To identify the impact of systems/methods for processing, accounting and financial reporting of intragovernmental and other related party activity and balances, a. Interview the entity's key management about, for example, the systems/methods that are used to process intragovernmental and other related party activity and balances (e.g., IPAC, credit cards, standard forms used to transfer funds between appropriations, and others).		
b. Obtain estimates of the approximate number and dollar amount of intragovernmental and other related party activity and balances (this could be based on the prior year) that are processed by each significant system/method (see FAM section 270).		
c. Consider coordinating this work with the audit of like nonfederal activity and balances (i.e., similar transactions by the entity with parties other than other federal entities).		
4. To identify the intragovernmental and other related party activity and balances a. Ask the entity management: i. Names of all related parties (intragovernmental and others) and whether there were transactions with them during the period. Other possible related parties outside of government might be states, management, and individuals and firms with which members of management may be related or otherwise be able to significantly influence the management or operating policies.		

Audit Procedures[1]	**Done by/date**	**W/P ref.**
ii. The nature and terms of all significant activities and balances. For example, • for a seller entity, •• Obtain information on the types of significant revenues, any markup percentage(s) over full cost, and the settlement/payment due date. •• Inquire as to how the full cost of products and services sold is determined.		
• for a buyer entity, •• Inquire about the minimum requirements (business rules) that must be met *before* an intragovernmental trading partner may provide goods or services.		
• Inquire as to amounts, if any, that are in dispute at year-end.		
iii. Whether the audited entity receives services without reimbursement or for less than full reimbursement, for example, donated services, such as space or detailed employees. If so, ask if the entity is complying with GAAP and/or OMB requirements with respect to accounting and reporting treatment of these transactions. Also, if applicable, ask about the approximate fair value and/or financial statement disclosure for such goods and/or services.		
iv. Whether the entity centrally maintains contracts, agreements, and support for the terms of all significant transactions with related parties.		
b. Review, if any: i. The entity policy for advance approval of related party transactions by senior management.		
ii. The entity policy for requiring disclosure by employees to appropriate officials of potential conflicts of interest, such as related party transactions by employees of the entity. Also determine if summaries of such transactions are communicated to financial management for its consideration.		

Audit Procedures[1]	Done by/date	W/P ref.
iii. Vendor and customer master file listings, major contracts, and IPAC activity for intragovernmental or other related parties.		
c. Ask Treasury/FMS regarding entities historically reporting intragovernmental transactions with the audited entity.		
5. Provide audit staff with the names of known intragovernmental and other related party trading partners, a description of the nature of significant transactions with each, and such other information as considered necessary to assist them in planning and performing other sections of the audit.		
6. Summarize the results.		
7. Document the auditor's preliminary assessment of risks related to the intragovernmental and other related party activity and balances in the ARA form or equivalent.		
II. Internal Control Phase Understand the internal control the entity has in place for identifying, accounting for, eliminating, and reporting intragovernmental and other related party activity and balances (existence, completeness, valuation, rights and obligations, presentation and disclosure) (see FAM section 320). 1. Determine through inquiry of management, walkthroughs, review of prior years' documentation and other means, how and when the entity identifies intragovernmental and other related party transactions. a. Whether the entity identifies the transactions by trading partner when they are initiated and on all documentation thereafter.		
b. If the entity uses trading partner codes, the relationship of such codes to other document identifiers such as vendor codes. For example, trading partner codes may be integral to each vendor code, or it may be necessary to crosswalk vendor codes to a file of trading partner codes.		

Audit Procedures[1]	Done by/date	W/P ref.
c. If the entity does not use trading partner codes, determine how the entity identifies, analyzes, and accumulates intragovernmental activity and balances. For example, the entity may derive such amounts through off-line manual processes after the fact.		
d. When the entity recognizes each significant category of intragovernmental and other related party transactions. For example, when an invoice is received, when processed through IPAC,[2] when goods or services are received, when notified by the seller that an agreed-upon stage of completion has been achieved. Consider whether the entity's policy in recording intragovernmental and other related party transactions is appropriate.		
e. Whether the entity and its trading partners use consistent reciprocal ledger accounts[3] and categories of activity and balances for recording and reconciling such amounts. If so, ask what processes are in place to provide management with reasonable assurance that trading partners are recognizing reciprocal transactions in the same period, for the same amount, and by consistent or compatible accounting methods.		

[2] Intragovernmental Payment and Collection (IPAC) system replaced the Online Payment and Collection (OPAC) system in December 2001.

[3] Reciprocal accounts are corresponding SGL accounts that should be used by seller and buyer entities to record like intragovernmental transactions. For example, the seller entity's accounts receivable would normally be reconciled to the reciprocal account, accounts payable, on the buyer entity's records. Examples of these accounts are in FMS' *Federal Intragovernmental Transactions Accounting Policies Guide*.

Audit Procedures[1]	Done by/date	W/P ref.
f. If the entity complies substantially with the SGL at the transaction level as it applies to intragovernmental activity and balances. (Note: The SGL accounts used should include attributes for intragovernmental activity and balances that identify (a) that these accounts contain intragovernmental transactions (e.g., attribute "F") and (b) the trading partner (e.g., Treasury trading partner code "20").)		
g. Policies and procedures for confirming intragovernmental and other related party activity and balances with trading partners.		
h. How often the entity reconciles its related party activity and balances with its trading partners. Also inquire as to whether adjustments identified as necessary through the reconciliation process have been properly recognized in the financial records. If not, ask why. If the entity did not perform reconciliations, ask why not.		
i. Whether the selling and buying entities have established processes to facilitate the timely reconciliation of activity and balances. (Note: The selling entity is typically responsible for furnishing detailed transaction information to facilitate reconciliation.)		
j. What the entity's year-end cut-off procedures related to the intragovernmental and other related party activity are. Determine if procedures provide assurance that intragovernmental activities occurring in the current period are recorded in the current period. (Since the reconciliation process should detect cutoff errors, see above for reconciliation procedures with trading partners.)		
k. What the entity's policies and procedures are for intraentity elimination.		
l. Whether the entity maintains transaction logs or detailed records of transactions to identify the postings to SGL accounts and to facilitate the reconciliation process. The logs should include sufficient information to enable identification and location of the supporting documents.		

Audit Procedures[1]	Done by/date	W/P ref.
m. Whether the entity reviews and approves monthly account analyses of intragovernmental accounts and examines budget-to-actual and trend analyses.		
2. Coordinate with the results of audit procedures for other cycles to determine if the entity has internal control issues related to intragovernmental and other related party activity and balances. For example, to determine if the entity has control issues related to intragovernmental activity and balances, coordinate with the results of FBWT audit procedures to determine if the entity has issues on its FBWT/IPAC reconciliation such as material unreconciled amounts and aged unreconciled IPAC differences.		
3. Perform walk-throughs of processes for identifying, accounting, reconciling, confirming, eliminating, and reporting intragovernmental and other related party activity and balances to obtain or update the auditor's understanding of these procedures and preliminarily assess the effectiveness of these controls. a. Walkthrough the process from initiation to recording in the general ledger and inclusion in the financial statements or elimination for each significant type of intragovernmental and other related party activity and balances.		
b. Walk through the management/entity approval process of payments to trading partners. (Note: Prior audits have identified instances where payment controls for intragovernmental transactions were not sufficient, for example, the seller entity made payments to trading partners without verifying whether goods or services were provided.)		
c. Identify and document differences in process for nonfederal and intragovernmental and other related party activities and balances.		
d. If the entity performs reconciliations of intragovernmental activity and balances with trading partners during the year, the auditor should walk through both interim and year-end reconciliation processes.		

Audit Procedures[1]	Done by/date	W/P ref.
4. Prepare or update the cycle memorandum, flowchart, and ARA and SCE forms (See FAM sections 390, 395 H and I, and 902 A and B) or equivalents.		
III. Testing Phase A. For intragovernmental accounts, if the auditor preliminarily determines that the entity's reconciliation and confirmation controls with trading partners are effectively designed and placed in operation, test the entity's policies and procedures to determine if the reconciliation and confirmation controls are effective and if intragovernmental balances appear reasonable. 1. Obtain final yearend reconciliations/confirmations of intragovernmental activity and balances for each trading partner and supporting documentation; or obtain the entity CFO responses for intragovernmental activity and balances and the supporting documentation for the final reconciliation/confirmations. (See the *Treasury Financial Manual* (TFM) sections on CFO procedures/representations and on IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances)		
2. Compare the amounts in the reconciliations to supporting documentation.		
3. Trace the adjustments, if any, identified in the reconciliation process to the entity's financial records.		
4. Compare the amounts, excluding intra-departmental activity and balances, in the audited department consolidated financial statements to such amounts in the department's final FACTS I or FACTS Notes reports to FMS.		
5. Prepare an agreed-upon procedures report. (Note: The procedures in steps 1 to 4 above are agreed-upon procedures for intragovernmental activity and balances. See the TFM, volume 1, section on IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances. Also see FAM section 660.)		

Audit Procedures[1]	Done by/date	W/P ref.
6. Consider whether these agreed-upon procedures are sufficient to achieve financial statement audit objectives. For example, whether the agreed upon procedures are applied to all significant assertions for all significant intragovernmental activity and balances. Typically these procedures alone will not be sufficient for financial statement audit purposes.		
7. If the agreed-upon procedures are not sufficient, then design additional procedures that in combination with the agreed-upon procedures will be sufficient. For example: <u>Reconciliation/confirmation (existence, completeness, valuations, rights and obligations, and classification)</u> • OMB's bulletin on *Form and Content of Agency Financial Statements* requires an entity to reconcile and confirm intragovernmental activity and balances with trading partners semiannually, beginning with the six-month period ending March 31, 2002 and quarterly, beginning with the three-month period ending December 31, 2002. If the entity performed monthly, quarterly, or semiannual reconciliations, test reconciliations to determine if the entity's reconciliation control is effective throughout the year. • There should be a *separate* reconciliation/ confirmation for each trading partner. • This reconciliation/*confirmation* also may be used for within entity reconciliation/confirmation (intraentity). a. Determine the completeness of population: Determine if the entity performed reconciliations and confirmations for all trading partners by comparing the trading partners on the reconciliations and confirmation forms to subsidiary records or the entity's trading partner list obtained during the planning phase.		
b. For each reconciliation/confirmation: i. Determine if the reconciliation/confirmation was reviewed and approved by the appropriate personnel.		

Audit Procedures[1]	Done by/date	W/P ref.
ii. Compare the total amounts and SGL accounts of the activity and balances reported on the reconciliation/confirmation form with the general and subsidiary ledger accounts, and the total amounts to audited financial statements and footnote disclosures. If differences are found, document each such difference. Consider potential impact on financial statements and post the differences identified to summary of unadjusted misstatements.		
iii. Test whether the entity used appropriate SGL accounts and whether these SGL accounts include the proper attribute(s) to indicate that they result from intragovernmental transactions. (Note: For example, when the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.) Entities can modify SGL accounts listed on the form to be more specific.		
iv. Consider whether the entity is using the reciprocal accounts delineated in the FMS Guide. Entities should use these accounts to account for intragovernmental activity and balances in the specified categories. Use of these reciprocal accounts will facilitate the reconciliation and confirmation process.		

Audit Procedures[1]	Done by/date	W/P ref.
v. For fiduciary activity and balances, compare amounts on the reconciliation forms to amounts on the Intragovernmental Fiduciary Confirmation System. (Note: Fiduciary activity and balances include loans from the Federal Financing Bank and Bureau of Public Debt, investments with Bureau of Public Debt, Federal Employees Compensation Act transactions with Labor, and employee benefit transactions with OPM. The seller entity—Bureau of Public Debt, Treasury, Federal Financing Bank, Labor, and OPM—will make balances information and other details available through the Intragovernmental Fiduciary Confirmation System for the buyer entities' use in reconciling amounts to their records. The Intragovernmental Fiduciary Confirmation System is the official confirmation system for federal entities that engage in fiduciary intragovernmental transactions with Bureau of Public Debt, Federal Financing Bank, OPM, and Labor.)		
vi. For transfers, test whether • the classification of transfers as expenditure or nonexpenditure is proper, and • the accounting and reporting are appropriate.		
vii. For trust fund transfers such as highway and airport trust funds, also test whether the trust fund amounts are properly accounted for and maintained in accordance with laws that established these funds. (Note: Test either by the trust fund auditor or as agreed-upon procedures by the auditor who audits the entity that collects the revenue for it.)		

Audit Procedures[1]	Done by/date	W/P ref.
Reconciliation adjustments and differences (all intragovernmental categories) (Note: Exhibit I to FAM 902 C provides an illustration of a reconciliation tool that may be used to summarize reconciling items and prove amounts between a buyer and a seller entity.) c. Determine whether adjustments, if any, are supported and timely: i. Trace the adjustments and reconciling items identified in the reconciliation process to the entity general and subsidiary ledgers.		
ii. Examine the adjustments and supporting documents to determine if • The entity timely and properly performed the research and identified causes for differences. • The adjustments are agreed upon by both entities and made to proper SGL accounts. (Note: Examples of adjustments and reconciling items are: •• Adjustments in estimated accruals: For example, the seller entity has recorded unbilled revenue and the buyer entity was not timely advised of the estimated accrual. •• Adjustments due to timing differences: For example, timing differences caused by a buyer entity's delay in recording IPAC transactions into proper SGL accounts. •• Reconciling item for capitalization of assets: For example, the buyer entity purchased property and equipment or inventory and recorded them as assets.)		
iii. Obtain or prepare aging of outstanding unadjusted reconciling amounts for all significant intragovernmental balance sheet accounts. Identify old and/or unusual reconciling items and obtain explanations from the entity.		

Audit Procedures[1]	Done by/date	W/P ref.
iv. Review final yearend reconciliation for any accounting policy differences and determine if the entity explains the causes of these differences on the final reconciliation. The causes of these differences might be differences in accounting standard requirements, for example, amortization methods for discounts and premiums. For example, one trading partner uses the interest method and the other trading partner uses the straight-line method to amortize discounts/premiums. (Note: There should be no material unresolved differences on the final year-end reconciliation forms. The entity should resolve all differences with trading partners.)		
v. Determine the extent of unadjusted differences at year-end. Assess their materiality on the financial statement line item and the overall financial statements.		
vi. If adjustments are made subsequent to the completion of the confirmations (during the audit period), determine if the entity revised the reconciliation and confirmation and submitted the updated data to FMS.		
8. Summarize the results of testing: (1) conclude on the effectiveness of the entity's reconciliation and confirmation controls and (2) propose adjustments, if necessary.		
9. Determine whether the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		

Audit Procedures[1]	Done by/date	W/P ref.
B. For intragovernmental activity and balances, if the auditor preliminarily determines that the entity's reconciliation/ confirmation control with trading partners is not effective, or if the reconciliations and/or confirmations are not performed by the entity, the auditor should consider the effect on substantive tests and on the audit report. In some cases, the auditor may decide to modify the audit opinion when no reconciliation and other mitigating controls existed. However, when intragovernmental activity and balances are material, significant additional work may be necessary to express an unqualified opinion such as: 1. Coordinate work with other related line items to test existence, completeness, valuation, rights and obligations, and classification of intragovernmental activity and balances. For example, a. In conjunction with cash receipts, revenues, and accounts receivable testing, determine if intragovernmental accounts receivable were collected subsequent to test date. Examine supporting documentation for the posting of collections to the cash records; determine if intragovernmental revenues and receivables are included in nonfederal balances.		
b. Test completeness of intragovernmental activity and balances by reviewing vendor and customer master files to determine if intragovernmental vendors and customers are properly included in intragovernmental accounts.		
c. Consider sending confirmation requests to trading partners for both balance sheet and net cost activity and balances. Especially if combined risk is assessed as high, consider applying similar confirmation procedures as to the nonfederal accounts.		

Audit Procedures[1]	Done by/date	W/P ref.
Cut off test (existence and completeness) d. Determine if there are unrecorded transactions and if the transactions are recorded in the correct period. i. Coordinate with the FBWT audit team to review results of the FBWT reconciliation tests. For example, review IPAC transactions reconciliations and the recording of IPAC transactions in accounting systems; consider how timely and whether appropriate; review IPAC transactions after 9/30–subsequent billing and collecting transactions–to determine unrecorded transactions as of 9/30.		
ii. Search for unrecorded sales revenue, accounts receivable, purchases, and accounts payable (completeness). For example, • To search for unrecorded sales revenue and accounts receivable, select sales invoices for trading partners recorded in the xx-day period subsequent to year-end. Trace the selected invoices to shipping records or evidence of service performance. Determine whether the sales revenue and accounts receivable were recorded in the correct period. Alternatively, select from shipping records to trading partners prior to year-end and trace to sales invoices.		
• To test the completeness of amounts recorded as accounts payable at the balance-sheet date, select disbursements after the end of the audit period and test if the amounts were recorded in accounts payable.		
2. Review the test results of other related line items to determine if there are issues related to existence, completeness, valuation, rights and obligations, and classification in the tested accounts and transactions and the impact on the intragovernmental activity and balances. In testing these other accounts, consider whether items tested were from trading partners.		

Audit Procedures[1]	Done by/date	W/P ref.
3. Summarize the results and propose adjustments, if necessary.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		
<u>Control and substantive tests of details—other related parties</u> C. Attain satisfaction about the purpose, nature, and extent of material other related party transactions and their effect on the financial statements. Coordinate with sensitive payments work, including the review of executive compensation, travel, official entertainment funds, unvouchered expenses, and consulting services (see FAM section 280.05). 1. Based on the work performed during the planning and internal control phases, determine and document the methodology used to select the transactions for testing. • Examine all transactions, • Dollar unit sampling (DUS), • Classical variables estimation sampling, or • Other (describe).		
2. For the selected transactions, a. examine documentation such as invoices, contracts, agreements, and receiving and shipping reports;		
b. determine whether the transactions have been properly approved;		
c. confirm transaction terms and amounts with the other party to the transaction; and		
d. test the compilation of amounts that may be disclosed in the financial statements for reasonableness.		
3. Summarize the results.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Audit Procedures[1]	**Done by/date**	**W/P ref.**
<u>Substantive analytical procedures (FAM 475)</u> D. Substantive analytical procedures: Perform analytical procedures to assess whether balances are reasonable and reflect appropriate activities (existence and completeness). If the entity performs reconciliation and confirmation of intragovernmental activity and balances and the auditor places reliance on those tests of details, less rigorous, supplemental analytical procedures may be used to increase the auditor's understanding of intragovernmental activity and balances after performing tests of details in Testing, step III.A, above. However, in the absence of adequate reconciliation and confirmation controls, some or all of these procedures may be necessary to obtain sufficient evidence, if possible. For example, 1. Develop expectations of the accounts payable and receivable balances overall or for all significant trading partners in light of the payment cycle during the year. Then, compare the recorded balance overall or by trading partner to the expected amount and investigate differences in the recorded balance if differences exceed ______ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit).		
2. Develop expectations of recorded intragovernmental sales overall or for all significant trading partners based on independent data; for example, consider using trading partners' orders. Then compare the expectations to the recorded sales amounts and investigate differences in the recorded balance if differences exceed ______ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit).		

Audit Procedures[1]	**Done by/date**	**W/P ref.**
3. Examine accounting records, for example, accounts receivable and payable, for large, unusual, or nonrecurring activity or balances. For example, consider expectations as to the types of intragovernmental activity and balances and trading partners based on the planning work. Then, examine significant unexpected/unusual intragovernmental activity and balances and intragovernmental activity or balances with unexpected trading partners. Document the definition of significant.		
4. Summarize the results of testing and determine if adjustments are necessary.		
<u>Elimination (existence, completeness, and valuation)</u> E. Test consolidation/elimination for transactions occurring within the entity (intraentity) to determine whether the elimination is appropriate and supportable. 1. Obtain a list of each component entity's intraentity transactions identified for elimination and each component entity's reconciliation of its intraentity activity and balances with its respective trading partners. This step may be done in conjunction with the test of reconciliation (see step III.A above).		
2. Review the entity's eliminating journal entries and supporting documentation for elimination entries of the entitywide consolidated financial statements. Determine whether elimination journal entries are a. approved by management and		
b. supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.		
3. Summarize the results.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Audit Procedures[1]	Done by/date	W/P ref.
IV. Reporting Phase To determine if the presentation and disclosures of intragovernmental and other related party balances comply with GAAP and OMB requirements: 1. Determine whether financial reports are prepared in accordance with the OMB bulletin on *Form and Content of Agency Financial Statements*. For example, a. Review the balance sheet and determine whether it is properly classified and line items are correctly reported as intragovernmental or nonfederal.		
b. Read the required supplementary information (RSI) to determine if intragovernmental amounts and the related federal trading partners for assets, liabilities, earned revenue from trade (buy/sell) transactions and nonexchange revenue are presented as RSI. The gross cost to generate earned revenue from trade transactions should be presented by budget functional classification in the notes to the financial statements.		
c. Read disclosures for the Statement of Net Cost in the notes to the departmentwide financial statements and determine if the department includes a separate disclosure of intragovernmental gross cost and earned revenue by budget functional classification as required by OMB's form and content bulletin. Gross cost and earned revenue should be net of intradepartment transactions (consolidated).		
2. Read the entitywide financial statements, notes, and RSI; compare the reported intragovernmental and other related party (if any) activity and balances with the test results.		
3. Request that the entity's management include, in the representation letter, representations related to intragovernmental and other related party activity and balances. (See FAM section 1001 for guidance.)		
4. Communicate with trading partner entities' auditors (with auditee's permission) to consider whether issues identified by the other auditors affect the auditor' s conclusions on intragovernmental transactions.		

Audit Procedures[1]	Done by/date	W/P ref.
5. Read the various current period Agreed-Upon Procedures (AUP) reports to consider whether the findings will affect the auditor's conclusion and/or if additional procedures need to be performed. For example, a. The AUP report on employee withholdings and employer contributions that are reported on the Report of Withholdings and Contributions for Heath Benefits, Life Insurance and Retirements. This AUP report is to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount report submitted to OPM (see OMB audit guidance).		
b. The AUP report on FACTS I verification. This AUP report is to evaluate the department's management assertion that it compared the department's summarized FACTS I data to its consolidated financial statements and to determine whether such data is in agreement.		
6. Summarize the results and determine if adjustments are necessary.		
7. Conclude whether intragovernmental and other related party activity and balances have been adequately accounted for and properly disclosed in the financial statements.		

Exhibit I

Reconciliation of Seller Entity Intragovernmental Earned Revenue with Buyer Entity Cost

Seller Entity - Trading Partner 1

Intragovernmental cash received for earned revenue, FY 200X, from Trading Partner 2 (General ledger before adjustment)	200,000
Less adjustment for timing difference -	
Cash received but revenue unearned at end of the current year	(20,000)
Add adjustment for timing difference -	
Earned revenue recognized on unbilled work at the end of the current year	50,000
Intragovernmental earned revenue - accrual basis, FY 200X, from Trading Partner 2 (General ledger after adjustment)	**230,000**

> When reconciled, Seller Revenue and Buyer Cost must agree after adjustments are recorded to correct for errors.

> The contra accounts for timing items should also reconcile.
>
> The Seller's unearned revenue account (liability) should reconcile with the Buyer's prepaid (asset) account.
>
> Seller's earned but unbilled receivable (asset) should reconcile with the Buyer's accounts payable for unbilled work (liability) account.

Buyer Entity - Trading Partner 2

Intragovernmental purchases - cash basis, FY 200X, from Trading Partner 1 (General ledger before adjustment)	190,000
Add:	
Adjustment for cutoff error identified during reconciliation process [*Cash sent to Trading Partner 1, but not recorded]*	10,000
Adjustment for completed but unbilled work at the end of the current year	50,000
Less:	
Cash paid in the current year, but amount prepaid at end of current year	(20,000)
General ledger after adjustment for Trading Partner 1	**230,000**
Less:	
Reconciling item for purchases inventoried at end of the current year	(50,000)
Intragovernmental purchases included in cost - accrual basis, FY 200X, from Trading Partner 1	**180,000**

> When reconciled and adjusted, Seller Revenue and Buyer Cost may not agree because of timing differences. Here, the Buyer has inventoried a portion of the purchases for the year.

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903 - AUDITING COST INFORMATION

.01 This section provides general guidance for considering cost information and planning audit procedures. The auditor should coordinate these procedures with procedures on auditing various line items and accounts. The auditor is concerned about cost information for a number of reasons. First, the auditor should obtain sufficient evidence to determine whether the costs are fairly stated in the financial statements and appropriately classified. Proper classification at the agency level also contributes to proper classification of costs in the consolidated financial statements of the U.S. government. Second, for CFO Act agencies and components designated by OMB, the auditor is concerned about the entity's financial management systems' substantial compliance with the three requirements of FFMIA. Third, cost information is important to the MD&A, although the auditor does not opine on the MD&A. The most relevant accounting standard for cost information is Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting*. This standard has relevance both to external financial reporting and to cost information for internal management reporting.

STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS NO. 4, *MANAGERIAL COST ACCOUNTING*

.02 SFFAS No. 4 establishes the concepts and standards for providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS No. 4 are:

- To provide program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.

- To provide relevant and reliable cost information to assist Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.

- To provide consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among federal organizations and users of cost information.

.03 The first two objectives primarily address the managerial use of cost information in improving operating efficiency and cost effectiveness, making planning and budgeting decisions, and measuring performance. The third objective primarily addresses external financial reporting. That objective can be achieved by reporting cost information in financial statements that is consistent with costs generated by the cost accounting process. Because of the differences in the three objectives, some requirements in SFFAS No. 4 are relevant to managerial decision making and operations improvement, while some requirements are relevant to external financial reporting.

.04 The cost accounting concepts section of SFFAS No. 4 (paragraphs 41-66) establishes the overall goals of cost accounting for federal agencies. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, be integrated with the other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Cost information developed for various purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

.05 The five fundamental standards for managerial cost accounting set forth in SFFAS No. 4 (paragraphs 67-162) are important for the auditor. These standards will lead to the development of accurate and consistent cost information for internal and external reporting by federal agencies. The five standards are:

- <u>Requirement for cost accounting</u>: Each reporting entity should accumulate and regularly report the cost of its activities for management information.

- <u>Responsibility segments</u>: Management of each reporting entity should define and establish responsibility segments and report the costs of each segment's outputs.

- <u>Full costs</u>: Reporting entities should report the full costs of outputs, which is the total amount of resources used to produce the output, including direct and indirect costs.

- <u>Interentity costs</u>: Each entity's costs should incorporate the full cost of goods and services received from other entities. As directed by SFFAS No. 4, paragraph 110, OMB has designated, in its bulletin, *Form and Content of Agency Financial Statements,* the costs of goods and services received from other entities that should be recognized.

- <u>Costing methodology</u>: The costs of resources that directly or indirectly contribute to the production of outputs should be accumulated and assigned to outputs using appropriate methodologies. (See paragraph 903.07.)

AUDIT PROCEDURES FOR FINANCIAL STATEMENT OPINION

.06 As part of understanding the entity's operations, the auditor should obtain an overview of how the entity meets these standards. This may be done by inquiry, observation, and walkthrough procedures. Substantive tests of the cost accounting system are usually necessary. The auditor should consider coordinating tests with other control and substantive tests. Based on the auditor's understanding of the agency's operations, the auditor should determine whether the statement of net costs is designed to include all the costs of the agency's programs. Also, in testing the statement of net costs, the auditor should test the financial statement assertions related to costs including whether expenses are properly classified in the statement of net costs, and in the notes by budget functional classification, as required by OMB's form and content guidance. The following (see FAM section 395 B) are examples of subassertions related to costs:

- Existence or occurrence:
  - Validity—(1) Recorded costs, underlying goods and services used, and related processing procedures are authorized by federal laws, regulations, and management policy. (2) Recorded costs are approved by appropriate individuals in accordance with management's general or specific criteria. (3) Recorded costs represent goods and services that were actually used and are properly classified.
  - Cutoff—Costs recorded in the current period represent goods and services used during the current period.
  - Summarization—(1) The summarization of recorded costs is not overstated. (2) Costs are assigned to appropriate classifications in the financial statements.
- Completeness:
  - Transaction completeness—All valid costs are recorded and properly classified.
  - Cutoff—All goods and services used in the current period should be recorded in the current period.
  - Summarization—The summarization of recorded costs is not understated.
- Valuation or allocation:
  - Accuracy—(1) Costs are recorded at correct amounts. (2) Costs are recorded using appropriate assignment methodologies.
  - Measurement—Costs included in the financial statements are properly measured.

- Presentation and disclosure:

  - Account classification—Cost accounts are properly classified and described in the financial statements.
  - Consistency—The financial statement costs are based on accounting principles that are applied consistently from period to period.
  - Disclosure—The financial statements and footnotes contain all information required to be disclosed.

.07 SFFAS No. 4 discusses three methods of assigning costs: directly tracing costs, assigning costs on a cause-and-effect basis, and allocating costs on a reasonable and consistent basis. Although the standard discusses these three methods in relation to assigning costs to responsibility segments and outputs, the methods are also applicable to assigning costs to financial statement line items in the statement of net costs, generally by program, and in the notes by budget functional classification. The different methods of assigning costs may require different auditing procedures for determining whether costs are properly classified in the statement of net costs by program and in the notes by budget functional classification.

.08 For example, for directly traced costs (such as materials used in production or employees who worked on an output), the auditor generally should test whether costs were assigned to the appropriate program and/or budget functional classification.

.09 Costs may be assigned on a cause-and-effect basis, by grouping costs into cost pools where an intermediate activity may be a link between the cause and the effect. For example, an information technology department may provide support to other departments. The information technology department may assign costs to other departments on a cause-and-effect basis by first assigning costs to an intermediate activity, such as hardware installation or software design. Then the costs in these pools may be further assigned to other departments based on their use of these technical services. In auditing these types of costs, the auditor should test whether costs are assigned to the appropriate cost pool (hardware installation, software design), but also whether the costs are appropriately summarized in the pool. Then, when costs are assigned to other departments, the auditor should test whether costs assigned are based on appropriate usage information, whether the cost assignments are reasonable and consistent, and whether they are mathematically accurate.

.10 Costs may be allocated if it is not economically feasible to directly trace or assign costs on a cause-and-effect basis. This is commonly done with costs such as general management, depreciation, rent, maintenance, security, and utilities used in common by various segments. These costs are generally accumulated in cost pools and allocated to segments or outputs (or programs or budget functional classifications) based on a relevant common denominator such as number of employees, square footage of office space, or amount of direct costs incurred in segments. In auditing these allocated costs, the auditor should test whether the costs are assigned to the appropriate cost pool and summarized appropriately. The auditor also should determine whether the allocation basis is reasonable and consistent and test the mathematical allocation. In addition, the auditor should determine whether an allocation rather that directly tracing costs or assigning them on a cause-and-effect basis is appropriate in the circumstances.

.11 The entity exercises judgment in determining the line item/programs included in its statement of net costs. The auditor should consider whether classifications are reasonable in the circumstances.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

.12 For audits of the CFO Act agencies and components identified by OMB audit guidance, the auditor should determine whether the agency's financial management systems comply substantially with the three requirements of FFMIA (see paragraph 100.02 and FAM section 701). To determine compliance with SFFAS No. 4 for the purposes of FFMIA, the auditor should ask these questions, which relate to the standards discussed in paragraph 903.05:

- Does the agency regularly accumulate and report the costs of its activities to management?
- Has the agency defined its major programs and responsibility segments for the purpose of delineating costs?
- Does the agency properly accumulate costs by those programs and segments?
- Has the agency accounted for the full costs (including interentity costs) of products, services, or outputs to be externally reported at the entitywide level?
- Has the agency accounted for the costs of resources that contribute to the production of outputs by individual responsibility segment using appropriate costing methodologies?
- Has the agency reported those costs in the year-end financial statements on the accrual basis of accounting?

- Are the costs reported for external financial reporting and those reported for internal management reporting consistent and reconcilable?

- Is the reported management cost information consistent, timely, and comprehensive?

- Is the cost information reported in such a manner that management can determine answers to appropriate questions about costs of outputs?

- How does management determine whether costs are appropriate?

- How does management determine the entity's compliance with FFMIA?

This inquiry is frequently combined with the procedures in paragraph 903.06, the outcome of which should be considered in concluding about the entity's compliance with the cost accounting requirements under FFMIA. Also, the auditor should review evidence supporting management's assertions in response to these questions, as further discussed in section 701, Assessing Compliance of Agency Systems with the Federal Financial Management Improvement Act (FFMIA).

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

.13 The auditor does not provide an opinion on the MD&A. Thus, the main concern is consistency of information, rather than testing the reliability of the cost data in the MD&A. The auditor should read the MD&A for consistency with the financial statements and with the auditor's knowledge of the entity. Testing generally should be limited to data in the financial statements, as discussed in paragraph 903.06, not the MD&A. Analytical procedures may be used to consider the reasonableness of cost data in the MD&A. Based on this comparison, the auditor should consider whether additional testing is needed.

.14 Although costs reported in internal and external reports should be consistent, they may differ in the degree of detail and reporting frequency. Cost information for management may require more frequent and timely reporting. It also may require more specific and detailed information regarding the costs of specific activities or outputs. By comparison, external reports could be less frequent, and the cost information more aggregated, such as on a suborganization or program basis.

921 - AUDITING FUND BALANCE WITH TREASURY (FBWT)

.01 This section provides guidance in auditing the Fund Balance with Treasury (FBWT) account. It explains key agency and Treasury processes and procedures related to FBWT accounts and discusses audit issues. Practice aids, including example Account Risk Analysis (ARA) and Specific Control Evaluation (SCE) forms and suggested audit procedures for the FBWT line item, are included in appendices.

.02 The FBWT account (SGL account 1010) is an asset account representing the unexpended spending authority in agencies' appropriations. Federal agencies record their budget spending authority in FBWT accounts and increase or decrease these accounts as they collect or disburse funds. Most agencies maintain several fund balance accounts funded by different types of appropriations, such as annual 1-year appropriations and/or multiyear appropriations that are included in the financial statement FBWT line item. The FBWT account also serves as one of several mechanisms to prevent agencies' disbursements from exceeding appropriated amounts.

.03 In the federal government, Treasury serves as the central banker. Most agencies use the banking services provided by Treasury's Financial Management Service (FMS) and do not keep cash in separate bank accounts. Some agencies have authority to disburse funds on their own behalf. These agencies still maintain FBWT accounts and follow Treasury's reporting and reconciliation requirements.

.04 Unlike commercial banking institutions, Treasury does not keep independent accounting records of each agency's FBWT accounts. Instead, Treasury uses monthly data reported by the agencies to calculate agencies' FBWT balances and requires agencies to perform detailed reconciliations of FBWT accounts to maintain the accuracy and reliability of agencies' fund balance records. Effective reconciliations also serve as a detection control for identifying unauthorized and unrecorded transactions at the agencies and Treasury.

.05 Treasury requires agencies to maintain FBWT accounts and to perform a two-part reconciliation process each month.

- First, agencies should reconcile differences identified by Treasury between cash receipts and disbursements transactions reported by agencies to those reported by other sources of financial data, such as the Federal Reserve, commercial banks, other federal agencies, and the FMS regional financial centers. Treasury reports differences identified to agencies each month on "Statements of Differences."[1]

- Second, agencies should reconcile differences between their records and Treasury records of the monthly activity recorded in the FBWT accounts. Each month Treasury provides appropriation, fund, and receipt account ledgers, which include a rollforward of the previous month's balance, the current month's cash activity reported by the agency and other account activity (supplemental appropriations, recissions, nonexpenditure transfers, entries reported by other agencies) to compare to their records.

Differences remain until reconciled by the agencies and represent potential misstatements in agencies' financial statements and budget execution reports.

AUDIT ISSUES

.06 Many agencies have problems in reconciling the transaction activity in their FBWT accounts. Ineffective FBWT reconciliations contribute to agencies' inability to prepare auditable financial statements. Without effective agency reconciliations of receipt and disbursement activity, the agency FBWT balance – the amount of funds available to it for expenditure in each appropriation – may contain material misstatements, and auditors generally would be unable to determine whether FBWT is fairly stated.

.07 Prior audits of agencies' financial statements identified instances in which agencies were not timely reconciling their FBWT accounts. Instead, some agencies adjusted their accounts to show the amounts reported by Treasury and/or recorded differences in suspense accounts without adequately researching the causes of the differences. Unreconciled differences recorded in suspense accounts could represent transactions that have not been recorded by the agency to the appropriate accounts. Only after researching its accounting records and reports can an agency determine the cause of the problem and make the proper adjustments to its FBWT accounts (and related asset, liability, expense, or revenue accounts) or advise Treasury to correct its records.

.08 There were instances in which agencies did not receive Statements of Differences from Treasury, even though unreconciled differences existed. Some

[1] The banking system data is reported via CASHLINK, other federal agencies via IPAC (which replaced OPAC in December 2001), and FMS regional financial centers via GOALS. See FAM section 921 A for more detail on the Treasury processes and reports related to FBWT reconciliation.

agencies did not use their accounting records to prepare monthly reports to Treasury. Instead, they reported the same amounts recorded in OPAC and CASHLINK to avoid Statements of Differences; generally these agencies tracked differences in suspense accounts. Because Treasury uses these sources to compare with the amounts reported by the agency, Treasury did not identify differences; thus, no Statements of Differences were issued. Also, some agencies cleared Statements of Differences by reporting adjustments to Treasury before researching and resolving differences. Therefore, amounts reported on Statements of Differences might not always be an adequate indicator of reconciliation problems or an adequate measure of the extent of outstanding unreconciled differences. Auditors should design tests to obtain an understanding of the agency's reconciliation procedures in order to assess the effect of its reconciliation process on the financial statements and to determine the level of audit procedures required after considering the materiality of unreconciled differences.

.09 Because Treasury's record of an agency's FBWT is the result of the activity reported to Treasury by the agency itself, and is not obtained from another source, the reconciliation process is a key control over FBWT accounts.

.10 One year's successful audit of the reconciliation of FBWT activity will generally not result in an auditable balance because the auditor faces the issue of auditing the beginning balance. Except for the first year of an appropriation, the balances in most FBWT accounts are included in the FBWT line item rollforward from year to year until the account is closed, which can be 5 years or more, depending on the type of appropriation.

.11 In an initial audit, the auditor should design tests to obtain assurance on the FBWT beginning balance. This may require testing of FBWT reconciliations performed in prior years or other audit procedures that provide assurance on the FBWT line item. For example, in some instances detailed audit procedures over beginning balances related to other financial statement accounts that affect FBWT could provide assurance. In tests of other account balances, the auditor may be able to determine that old errors were written off or other appropriate adjustments were made to FBWT and that the fund balances from prior years and remaining unadjusted reconciling differences are immaterial.

AUDIT APPROACH

.12 Because Treasury relies on the monthly data reported by the agencies to calculate agencies' FBWT balances, confirmation of FBWT account balances with Treasury does not provide competent evidence. Therefore, the auditor needs to obtain competent evidence through tests of the agency's FBWT reconciliation process.

.13 Since most assets, liabilities, revenues, and expenses stem from or result in cash transactions, misstatements in the receipt or disbursement activity recorded in the FBWT accounts affect the balances of various financial statement accounts. Even though net FBWT account balances may be immaterial as of the date of the financial statements, the gross receipt and disbursement transactions flowing through the FBWT account during the fiscal year are usually material. Therefore, the auditor should test the reconciliation of the transaction activity flowing through the account. In addition, the auditor should assess the impact of gross unreconciled differences on the FBWT and other financial statement line items.

.14 The auditor should design an audit program that includes steps to determine whether the agency

- prepares monthly reports to Treasury using the same detailed accounting records of collection and disbursement transactions that are used to prepare the agency's financial statements;

- researches and resolves the underlying causes of differences between amounts reported by Treasury and agency records each month and makes the proper adjustments; and

- monitors suspense account activity – including maintaining detailed records of unreconciled differences charged to the account and maintaining records that age the differences – and performs procedures to timely and properly clear the account.

.15 The auditor also should design procedures to determine the magnitude of the agency's gross unreconciled differences at year-end by analyzing the Treasury Statements of Differences reports and agency suspense account items in terms of their aggregate absolute values and resulting impact on the financial statements. (Since each difference represents a potential misstatement, the roll-up and netting of charges and credits can significantly understate the total outstanding differences.)

PRACTICE AIDS

.16 The following practice aids are appended to this section:

- Section 921 A – Treasury Processes and Reports Related to FBWT Reconciliation.

- Section 921 B – Example Account Risk Analysis (ARA).

- Section 921 C - Example Specific Control Evaluation (SCE). (Note that a single SCE of the line item/account-related accounting application for FBWT is presented. There are transaction-related accounting applications listed on the ARA that affect FBWT, such as cash receipts and cash disbursements, that would require transaction related SCEs.)

- Section 921 D - Example Audit Procedures.

.17 These aids are not all inclusive. They do not include tests of other accounts, such as Other Cash on Deposit bank accounts and Imprest Funds. Also, for agencies that write their own checks, the aids do not discuss or include tests of controls over check stock. If material, the auditor should apply appropriate additional tests. The aids provide the auditor with a framework for designing tests of FBWT accounts. Auditors should use professional judgment in designing audit programs for their particular agency after considering materiality, audit risks, and internal control.

.18 The auditor should use judgment in determining the most effective and efficient method to achieve the audit objectives. When possible, the FBWT audit procedures should be coordinated with other tests. For example, many procedures may be performed in conjunction with tests of agency cash receipts and cash disbursements. Others may be included as part of compliance testing.

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921 A - TREASURY PROCESSES AND REPORTS RELATED TO FBWT RECONCILIATION

A. Verification of Collections and EFT Disbursements			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
Agencies report collections monthly on Statements of Transactions (SF 224) or Statements of Accountability/ Transactions (SF 1218/1221 or 1219/1220) by ALC. Note: For agencies which report on SF 1218 or 1219, electronic disbursements are netted against collections.	CASHLINK system data (CASHLINK is used by the banking system to report collections and EFTs received from and on behalf of government agencies). Note: In CASHLINK, electronic disbursements are reported as "negative collections," or debit vouchers.	FMS compares monthly collection totals reported on agency SF 224s, SF 1218/1221s, or SF 1219/1220s to transaction data available in CASHLINK.	Month-end Statements of Differences (FMS 6652) via GOALS for each month until the difference is cleared. Monthly detailed support list of transactions reported in CASHLINK.
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on data reported by agencies.	Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, and receipt account. Monthly appropriation and receipt account trial balances (FMS 6654/ 6655) by department.

B. Verification of Disbursement Data			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
1. Verification of Treasury Disbursement Office agency disbursements			
Agencies for which FMS regional financial centers disburse money submit monthly Statements of Transactions (SF 224) by ALC. Agencies for which FMS regional finance centers disburse money report net interagency transactions on SF 224.	FMS regional finance center Agency Confirmation Reports (include checks issued and electronic disbursements accomplished on behalf of the agency). The Interagency Payment and Collection system (IPAC) data are used by agencies and FMS to accomplish interagency transactions).	FMS compares monthly disbursement totals reported on agency SF 224s to disbursement data on regional finance center reports or IPAC.	Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared. Monthly detailed support listings of transactions reported by regional finance centers, and IPAC.
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.	Monthly appropriation account ledgers (FMS 6653) showing account activity and net balances for each appropriation and fund account. Monthly appropriation account trial balances (FMS 6654) by department.

B. Verification of Disbursement Data			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
2. Verification of Non-Treasury Disbursing Office (NTDO) agency disbursements			
Verification of interagency transactions:			
NTDO agencies report net interagency transactions on SF 1218/1221 or SF 1219/1220 by ALC.	Interagency payment and collection system data.	FMS compares monthly net disbursement totals reported on agency SF 1218/1221s or SF 1219/1220s to disbursement data in IPAC.	Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared. Monthly detailed support lists of transactions reported by IPAC.
Verification of checks paid			
NTDOs submit tapes detailing checks issued and Month-end Checks Issued Summary reports (SF 1179).	Federal Reserve Banks submit tapes detailing checks paid.	FMS performs a check by check comparison of checks issued to checks paid by the banking system (dollar amount).	Advice of Check Issue Discrepancies (FMS 5206).
Verification of checks issued:			
NTDOs submit monthly Statements of Accountability/ Transactions (SF 1218/1221 or SF 1219/1220).	SF 1179, Month-End Checks Issued Summary report submitted by NTDO agencies and checks paid by the banking system.	FMS compares SF 1179 data (adjusted for FMS 5206 dollar differences) to the agency disbursements reported on SF 1218/1221 or SF 1219/1220 (total checks issued to total checks paid).	Two-, 4-, 6-, & 8-month letters notifying agencies of any outstanding discrepancies over $50.

B. Verification of Disbursement Data			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
2. Verification of Non-Treasury Disbursing Office (NTDO) agency disbursements			
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.	Monthly appropriation account ledger (FMS 6653) showing account activity and net balances for each appropriation and fund account. Monthly appropriation trial balance (FMS 6654) by department.

921 B - EXAMPLE ACCOUNT RISK ANALYSIS FOR FUND BALANCE WITH TREASURY

Entity: Agency

Preparer: ____________

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: ____________

Line Item: Fund Balance with Treasury

File: ________

Date: ____________

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities[1]	Control risk	Combined risk	Tim-ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
Fund Balance with Treasury	$xx,xxx m	**Existence or occurrence** Recorded Fund Balance with Treasury (FBWT) does not exist.	Control risk arises from the (1) highly decentralized structure of the agency, which reduces management's knowledge of and control over operations, (2) significant weaknesses in general controls over the automated systems the agency relies extensively upon to process transactions and (3) lack of adequate management oversight of the reconciliation process. Inherent risk arises from the high volume of transactions flowing through the account.	<u>Cycles</u>: Revenue Payroll Budget Treasury <u>Applications:</u> FBWT Cash receipts Cash disbursements				I/F	Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end.	FBWT program FB-1 through FB-7

[1] Omitted from this example.

Entity: Agency

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Line Item: Fund Balance with Treasury

File: __________

Preparer: __________

Region: __________

Date: __________

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities[1]	Control risk	Combined risk	Tim-ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		Completeness FBWT is omitted from the financial statements or is incomplete.	Control risk arises from the (1) highly decentralized structure of the agency, which reduces management's knowledge of and control over operations, (2) significant weaknesses in general controls over the automated systems the agency relies extensively upon to process transactions and (3) lack of adequate management oversight of the reconciliation process. Inherent risk arises from the high volume of transactions flowing through the account.	Cycles: Revenue Payroll Budget Treasury Applications: FBWT Cash receipts Cash disbursements				I/F	Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end. Prepare lead schedule of GL accounts that constitute FBWT, analytically review with prior-year data, and resolve reasons for unexpected changes.	FBWT program FB-1 through FB-7 FB-2 and FB-10

Entity: Agency

Preparer: ____________

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: ____________

Line Item: Fund Balance with Treasury

File: ________

Date: ____________

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities[1]	Control risk	Combined risk	Tim-ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		Valuation/Accuracy Fund Balance with Treasury is not recorded accurately.	No significant inherent, fraud or control risk factors identified.	Cycles: Revenue Payroll Budget Treasury Applications: FBWT Cash receipts Cash disbursements				I/F	Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end.	FBWT program FB-1 through FB-7

Entity: Agency | Preparer: ____________

Date of Financial Statements: September 30, 20xx | **ACCOUNT RISK ANALYSIS FORM** | Region: ____________

Line Item: Fund Balance with Treasury | File: ________ | Date: ____________

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities[1]	Control risk	Combined risk	Tim-ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		Rights Agency does not have certain rights to Fund Balance with Treasury because of transfers, rescissions, and restrictions.	Inherent risk arises from the high number of appropriation, fund and receipt accounts, including certain special funds and trust funds that do not belong to the agency. Because these nonentity accounts are maintained within the same system used to maintain entity accounts and financial activity, there is a risk that these accounts will be inappropriately charged and be included in the FBWT line item. Same control risks as for existence and completeness.	Treasury				F	Review support for recorded appropriation, fund, and receipt accounts included in the FBWT line item. Review footnote disclosure.	FBWT program FB-8 and FB-10

Entity: Agency | Preparer: ________

Date of Financial Statements: September 30, 20xx | **ACCOUNT RISK ANALYSIS FORM** | Region: ________.

Line Item: Fund Balance with Treasury | File: ________ | Date: ________

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities[1]	Control risk	Combined risk	Tim-ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		Presentation and disclosure Fund Balance with Treasury is not properly classified and disclosed in the financial statements.	No significant inherent or fraud risk factors identified. Same control risks as for existence and completeness.	Treasury				F	Review FBWT related financial statement line item and footnote disclosures for conformance with applicable standards, and trace amounts reported in financial statement line items and footnote disclosures to general ledger and supporting detailed records.	FBWT program FB-9 and FB-10

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921 C - EXAMPLE SPECIFIC CONTROL EVALUATION FOR FUND BALANCE WITH TREASURY

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________. Region: ________. Date: ______ Page 1 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Existence or Occurrence	Existence	Existence	**Substantiation** 1. Recorded FBWT does not exist as of a given date.	1a. Recorded FBWT amounts should exist as of a given date.	(See note 1.) 1. Agency staff performs monthly reconciliation between agency general ledger (G/L) and Treasury records (appropriation and receipt account ledgers, FMS 6653 and FMS 6655).	Y		FB- 5 & FB-6
					2. Agency staff resolves receipt and disbursement differences reported by Treasury via the FMS 6652, Statements of Differences for collections and disbursements.	N		FB-4 & FB-6

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ______ Page 2 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
					3. Agency staff resolves disbursement differences reported by Treasury via the Advice of Check Issued Discrepancy Report (FMS 5206) and Difference Notification to the Disbursing Office (NTDO agencies).	N		FB-4 & FB-6
				1b. Recorded FBWT, at a given date, should be supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1. Agency staff reconciles the monthly Statement of Transactions (SF 224) submitted to Treasury, to the applicable G/L accounts.	Y		FB-3
					2. Agency staff reconciles the monthly Statement of Accountability/transactions (SF1219/1220 or SF1218/1221) submitted to Treasury, to the applicable G/L accounts (NTDO agencies).	N		FB-3
					3. Same as 1.1a.1			

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______ Region: ______ Date: ______ Page 3 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
				1c. Access to FBWT, critical forms, records, and processing and storage areas should be permitted only in accordance with laws, regulations, and management policy.	1. Not covered in this example. Note: For agencies that disburse funds on their own behalf (NTDOs), and maintain cash and/or check stock on hand, auditors will need to document and test the effectiveness of the control activities in place.			
Completeness	Complete-ness	Complete-ness	**Account completeness** 2. FBWT balance exists but is omitted from the financial statements.	2a. FBWT balance should be included in the financial statements.	1. Same as 1.1a.1, 1.1a.2, 1.1a.3. 2. Agency staff reconciles the FBWT line item crosswalk that includes all G/L FBWT accounts to the Treasury Appropriation and Receipt Trial Balances.	N		FB-8 FB-9

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______ Region: ______ Date: ______ Page 4 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Valuation or allocation	Valuation	Valuation	**Accuracy** 3. FBWT receipt and disbursement transactions are recorded incorrectly.	3a. FBWT transactions should be recorded accurately.	1. Same as 1.1a.1. 2. Same as 1.1a.2. 3. Same as 1.1a.3.	N N		FB- 4 FB-5 & FB-6
Rights and obligations:	Rights	Rights	**Ownership** 4. Recorded FBWT is owned by others.	4a. Agency should own recorded FBWT.	1. Agency staff reconciles Treasury appropriation warrants, appropriation recissions, and nonexpenditure transfers to FBWT accounts. 2. Agency staff reconciles expenditure (cash receipts and disbursements) activity to the FBWT accounts.	N		FB-8 FB-4, FB-5, FB-6

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ______	Preparer: ______ Region: ______ Date: ______ Page 5 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
			Rights 5. Agency does not have certain rights to recorded FBWT because of appropriation restrictions.	5a. Recorded FBWT should be agencies' rights at a given date.	1. Same as 4.4a.1.	N		FB-8

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ________ Page 6 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Presentation and disclosure	Disclosure	Disclosure	**Account classification** 6. FBWT is not properly classified and described in the financial statements.	6a. FBWT should be properly classified and described in the financial statements.	1. Agency staff reconciles Treasury Undisbursed Appropriation Account and Receipt Account trial balances to the G/L accounts. 2. The Chief Accountant reviews the FBWT account analysis and crosswalk to the FS against the Treasury Financial Management Supplement–*U.S. Government Standard General Ledger* (section V).	N		FB-6 FB-9

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** (Line Item/Account-Related) File: ________	Preparer: ________ Region: ________ Date: ______ Page 7 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
	Presentation	Presentation	**Consistency** 7. The financial statements components of FBWT are based on accounting principles different from those used in prior periods.	7a. FBWT should be based on accounting principles that are applied consistently from period to period.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles.	N		FB-10
	Disclosure	Disclosure	**Disclosure** 8. Required information is not disclosed in the financial statements or in the footnotes thereto.	8a. The financial statements or footnotes thereto should contain all information required to be disclosed.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles and required disclosure.	N		FB-10

Note 1: The internal control activities 1.1a.1 and 1.1b.1 generally rely on system outputs that are dependent on IS general controls, which may be ineffective at some agencies. (Tests of controls over agencies' general ledger systems should be included as part of computer control tests.) The control activity 1.1a.2 validates receipt and disbursement balances with Treasury records that are obtained from third parties (banks, Treasury regional finance centers, other agencies).

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921 D - EXAMPLE AUDIT PROCEDURES FOR FUND BALANCE WITH TREASURY

Entity ____

Period of financial statements ______________________________

Job code ____

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
I. Planning Phase **FB-1** A. To obtain an understanding of the agency's accounting and reporting requirements for Fund Balance with Treasury (FBWT) accounts, read the following documents: • *Treasury Financial Manual*, Volume I, part 2, chapter 5100 - Reconciling Fund Balance with Treasury accounts, http://fms.treas.gov/fundbalance. • Current OMB bulletin, *Form and Content of Agency Financial Statements.* • Statements of Federal Financial Accounting Standards (SFFAS No. 1). • Agency accounting policies and procedures for the Fund Balance with Treasury Accounts.		
B. Read prior year documentation, financial statements, and related auditor's reports to determine if there were any audit issues/reportable conditions related to FBWT.		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
II. Internal Control Phase **FB-2** A. To obtain an understanding of the agency's internal controls over FBWT accounts, perform the following: 1. Interview key agency staff about the FBWT procedures and controls in place at the agency. a. Determine what method the agency uses to disburse funds (FMS regional finance centers, on its own behalf, and/or both methods). b. Obtain an understanding of the significant accounting systems and controls used in reporting and accounting for FBWT transactions. c. Identify FBWT line item general ledger accounts. d. Obtain an understanding of the agency's FBWT reconciliation procedures. Ask • if and how the agency tracks differences between the agency's and Treasury FBWT records; • what suspense accounts, if any, are used by the agency to track unreconciled differences; • if the agency has a process/system for aging unreconciled differences; and • how the agency reports and handles differences.		
B. Walk through the FBWT reconciliation process and determine whether reconciliation controls have been placed in operation.		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
III. Testing Phase **FB-3** A. To determine whether the agency's reconciliation of the monthly SF 224, 1219/1220 or 1218/1221 Statement of Transactions/Accountability report submitted to Treasury, to the applicable general ledger (G/L) accounts is effective (existence): 1. Obtain a list of the agency's Agency Location Codes (ALCs). Agency ALCs can be obtained through the GOALS. ALCs indicate the agency's method of disbursement. Four digit ALCs indicate a non-Treasury disbursing agency. Eight digit ALCs indicate a Treasury disbursing agency. 2. Obtain the monthly Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF 1219/1220 or 1218/1221) for each ALC for the fiscal year, or for the period being audited if testing at an interim date. 3. Select the individual Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF 1219/1220 or 1218/1221) to be tested (use separate forms to document the sampling plan). Indicate selection method. • Dollar unit sampling (DUS), • Classical Variables Estimation Sampling, or • Other (describe) ____________________________ For each statement selected: a. Compare the ALC on the SF 224 or SF 1219/1220 or 1218/1221 to the agency's list of ALCs. b. Trace monthly collection and disbursement amounts reported on the SF 224, SF 1219/1220 or SF 1218/1221 to amounts recorded in the agency's official accounting records (G/L). c. Trace any prior period adjustment amounts reported on the SF 224, SF 1219/1220 or SF 1218/1221 to supporting documentation and the agency's G/L. d. Examine supporting documentation for any differences.		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
B. Summarize the results of testing.		
C. Determine whether the results of testing indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		
FB-4 A. To determine whether the agency is properly reconciling collection and disbursement differences identified by Treasury (existence and completeness): 1. Obtain the following Treasury reports for each ALC for each month of the fiscal year, or for the period being audited if testing at an interim date. • Final month-end Statements of Differences (FMS 6652). Note: To obtain the population of Statements of Differences, obtain the initial month-end Statements of Differences issued by Treasury. Treasury issues month-end Statements of Differences for each accounting month (when differences are identified) and continues to send statements for that month until the difference is cleared. To obtain the initial differences reports for the period being audited, obtain the reports that show the same accounting date and audit date on the statement, indicating that this is the initial statement of differences issued for that month. • Advice of Check Issued Discrepancy reports (FMS 5206). (Note: This step applies only for agencies that disburse their own funds – Non-Treasury Disbursing Offices (NTDO) agencies.) • Treasury letters notifying the agency of outstanding differences between amounts reported on the SF 1219/1220 or SF 1218/1221 and its check issued summary reports. (Note: This step applies only for NTDO agencies.)		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
Select the individual statements/letters to be tested (use separate forms to document the sampling plan). Indicate selection method: • Dollar unit sampling (DUS), • Classical variables estimation sampling, or • Other (describe). ______________________		
For each statement/letter selected: a. Compare the ALC number on the statement/report to the agency's list of ALCs.		
b. Examine the agency's reconciliation files/documentation supporting the reconciliation of the difference, and determine if differences were adequately researched and resolved.		
c. Trace resulting adjustments, if any, to subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger accounts to determine if adjustments were properly recorded. (Note: reconciling items do not always result in adjustments to the G/L and/or Treasury records. The resulting adjustment, if any, depends on the cause of the difference. For example, an adjustment to the agency's G/L is not necessary when a bank error caused the difference. The bank is responsible for reporting the adjustment to Treasury.)		
B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.		
C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
FB-5 A. To determine if the agency's monthly reconciliation of its G/L to Treasury records is effective (existence and completeness): 1. For the months that correspond to the Statements of Differences selected above, obtain the Undisbursed Appropriation Account ledgers (FMS 6653) and Receipt Account ledgers (FMS 6655) sent by Treasury and the agency's reconciliation. • Trace the FMS 6653/6655 balance per the agency reconciliation to the FMS 6653/6655 reports sent by Treasury. • Trace the G/L account balances per the reconciliation to the appropriate G/L accounts. • Trace account activity per the FMS 6653/6655 to the agency G/L. (Note: Typical activity, other than agency disbursements and receipts, may include supplemental appropriations, non-expenditure transfers, and entries reported by other agencies.) • Examine supporting documentation for reconciling items. • Determine if the appropriate adjustments were made to the general ledger or that Treasury had been notified of needed corrections.		
B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.		
C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
FB-6 A. To determine whether the agency's year-end (September) reconciliation of FBWT accounts is effective (existence and completeness): 1. Obtain the Agency's year-end (September) FBWT reconciliation and Treasury's September Undistributed Appropriation Account Ledger (FMS 6653) and Receipt Account Ledger (FMS 6655). • Trace appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency's reconciliation. • Trace the appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency general ledger. • Examine supporting documentation for reconciling items. • Determine if appropriate adjustments were made to the G/L and/or reported to Treasury.		
2. Obtain the year-end (September) Statements of Differences reports issued by Treasury (FMS 6652, and/or FMS 5206 and Treasury notification letters). • Trace reported differences to the agency's reconciliation to determine if all differences were included in the FBWT reconciliation. • Examine supporting documentation and determine if differences were adequately resolved. • Trace resulting adjustments to supplemental Statements of Transactions/Accountability or subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger.		
3. Summarize the results of testing.		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
FB-7 A. To determine the extent of unreconciled differences at year-end and the potential impact on the agency FBWT account balance: 1. Determine if unresolved differences reported by Treasury on Statements of Differences as of September 30 for the fiscal year being audited were subsequently resolved and properly accounted for. • Obtain the Statements of Differences for the months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections.		
2. Determine the extent of unreconciled differences included in suspense accounts that are not included on Statements of Differences. • Obtain suspense account transaction detail report as of 9/30 for the year being audited. • Obtain suspense account transaction detail report for months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections.		
3. Assess the materiality of all unreconciled differences outstanding (at absolute value).		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
4. Summarize test results.		
5. Document the potential effect of material unreconciled differences on the FBWT line item and other financial statement accounts.		
FB-8 A. To determine if the agency recorded warrants, appropriation transfers, and rescissions properly, perform the following (rights and obligations): 1. For first year appropriations, obtain copies of the appropriation legislation and U.S. Treasury Appropriation Warrants (FMS 6200) for the fiscal year. • Compare the warrants to the appropriation legislation. • Trace amounts reported on the appropriation warrants to beginning appropriation balances recorded in the general ledger FBWT accounts. • Examine supporting documentation for any differences/reconciling items.		
2. For other than first year appropriations, trace the beginning balances recorded in the general ledger to <u>audited</u> ending balances of the prior fiscal year financial statements. (Note: If this is a first year audit, additional work may be necessary to substantiate the beginning FBWT account balance. For example, the auditor may need to consider if the reconciliation process has been effective over the life of the appropriations. This may require review of prior year reconciliations.)		

FBWT Example Audit Procedures: Description of Procedure	**Done by/date**	**W/P ref**
3. For appropriation activity occurring during the fiscal year being audited (supplemental appropriations, rescissions, and nonexpenditure transfers), obtain copies of related legislation for supplemental appropriation and rescission warrants and U.S. Treasury Non-Expenditure Transfer Authorizations form (FMS 1151) for the fiscal year. • Compare supplemental appropriations and rescissions recorded in the agencies' FBWT account to appropriation legislation and to U.S. Treasury warrants. • Compare non-expenditure transfer amounts recorded in the agencies' FBWT account to approved Non-Expenditure Transfer Authorizations form (FMS 1151).		
4. Examine supporting documentation for any differences/reconciling items.		
FB-9 A. To determine the existence and completeness of the appropriation, fund, and receipt accounts included in the FBWT financial statement balance (existence, completeness, presentation and disclosure): 1. Obtain the agency "crosswalk" of G/L accounts included in the FBWT line item and the September Treasury Undisbursed Appropriation Account Trial Balance and Receipt Account Trial Balance. • Trace account balances listed on the Treasury trial balances to the agency crosswalk of G/L accounts included in the FBWT line item. • Determine the status of accounts (i.e., open, expired, canceled) and assess whether the account is appropriately included in the FBWT line item. • Obtain an explanation and determine the appropriateness of accounts omitted from or included in the crosswalk that were not included in the Treasury trial balance.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
IV. Reporting Phase **FB-10** A. To determine if the FBWT balance appears reasonable (analytical procedure): 1. Compare the G/L accounts that constitute the FBWT with expectations and obtain explanation for any unexpected changes (e.g., credit balances, new accounts, closed accounts) or the absence of expected changes.		
2. Determine if additional testing is necessary.		
B. To assess whether the presentation of the financial statements and footnote disclosures for the FBWT line item are in accordance with U.S. generally accepted accounting principles (SFFAS No. 1) (presentation and disclosure) (see GAO/PCIE FAM, Part II, section 1004-Financial Reporting: Checklist for Reports Prepared under the CFO Act): 1. Determine if the agency has presented and disclosed FBWT in the notes to the financial statements in accordance with U.S. generally accepted accounting principles.		
2. Determine if material unreconciled differences are disclosed and explained in the notes to the financial statements.		
3. Determine if material unreconciled differences that were written off by the agency during the fiscal year being audited are disclosed in the notes to the financial statements.		
4. Determine if material restrictions, if any, have been properly disclosed.		
FB-11 A. Prepare proposed audit adjustments, if any.		
B. Conclude if the FBWT line item is fairly stated and if the controls over FBWT are effective.		

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SECTION 1000

Reporting

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1001 - MANAGEMENT REPRESENTATIONS

.01 This section deals with the management representations that the auditor is required to obtain from current management as part of the audit, as described in sections 280 and 550. It covers the four general areas of representations: representations about the financial statements, internal control, financial management systems' substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and compliance with laws and regulations. In the AICPA standards, these representations are discussed in sections AU 333 (SAS 85), AT 501.44 (from *Statement on Standards for Attestation Engagements* (SSAE) Number 10, paragraph 5.44), and AU 801. OMB audit guidance also contains guidance on management representations letters.

.02 Written representations from management ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of misunderstanding. Management representations are not a substitute for audit procedures. If a representation is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation. Also, the auditor should then consider whether it is appropriate to rely on other management representations. Management's refusal to furnish written representations is a scope limitation sufficient to preclude an unqualified opinion.

.03 The specific representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. These representations apply to all the financial statements and all periods covered by the audit report. In addition to the representations given in the AICPA standards, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. Also, the representations given in the example representation letter in section 1001 A should be deleted if inapplicable or customized to the situation of the entity being audited.

.04 The management representation letter should be obtained from the highest level of the audited entity. The officials who sign the management representation letter should be those who, in the auditor's view, are responsible for and knowledgeable, directly or through others, about the matters in the representation letter. These officials should generally be the head of the entity and the CFO, or equivalent. Additional management representation letters should be obtained from any component units for which separate reports are to be issued.

.05 The management representation letter should be on the audited entity's letterhead. The representations should be as of a date no earlier than the date of the auditor's report—the end of fieldwork. To ensure the letter is ready in time, a draft letter generally should be provided to and discussed with management early in the audit and updated for circumstances found throughout the audit. Where management signs the letter after the end of fieldwork, the letter should state that the representations are as of the date of the audit report. If management signs the letter before the end of fieldwork, the auditor generally should obtain a separate letter to update the representations to the end of fieldwork. However, where the time difference is short, the auditor may update the representations orally and document the update in the workpapers.

.06 Although the management representation letter generally should be addressed to the Comptroller General (at GAO) or the agency IG, the audit team should consider having the entity deliver it directly to a member of the team to avoid any delays in receiving the letter.

.07 Especially for large audited entities, management may need to specify a materiality threshold in the management representation letter, below which items would not be considered exceptions. The auditor should be satisfied that such a materiality threshold is so far below design materiality that even many items below this level would not, in the aggregate, approach design materiality. For example, a threshold that is 5 percent (or less) of design materiality may be sufficiently low. The materiality level may be different for different representations and would not apply to those representations not directly related to amounts in the financial statements (such as responsibility for the statements).

REPRESENTATIONS RELATING TO THE FINANCIAL STATEMENTS

.08 Paragraph AU 333.06 lists 17 management representations that are ordinarily included in a GAAS audit if applicable. These generally relate to management acknowledging its responsibility for the financial statements and its belief that the financial statements are fairly presented in conformity with generally accepted accounting principles; completeness of financial information; recognition, measurement, and disclosure; and subsequent events. Examples of additional representations that may be appropriate depending on an entity's business or industry are given in appendix B to AU 333. The auditor may review section AU 333 for items that could be added to the representations, many of which would have to be modified in the federal government environment. (OMB has added a representation dealing with intragovernmental transactions and their reconciliations for CFO Act agencies and components.)

.09 Appendix B of AU 333 gives example language for the following situations:

General

- Unaudited interim information accompanies the financial statements.
- The impact of a new accounting principle is not known.
- There is justification for a change in accounting principles.
- Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.
- The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.
- The work of a specialist has been used by the entity.

Cash

- Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

Financial instruments

- Management intends to and has the ability to hold to maturity debt securities classified as held to maturity.
- Management considers the decline in value of debt or equity securities to be temporary.
- Management has determined the fair value of significant financial instruments that do not have readily determinable market values.
- There are financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk.

Receivables

- Receivables have been recorded in the financial statements.

Inventories
- Excess or obsolete inventories exist.

Deferred charges
- Material expenditures have been deferred.

Debt
- Short-term debt could be refinanced on a long-term basis, and management intends to do so.

Contingencies
- Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.
- Agreements may exist to repurchase assets previously sold.

Pension and postretirement benefits
- An actuary measured pension liabilities and costs.
- There is involvement with a multiemployer plan.
- Postretirement benefits have been eliminated.
- Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.
- Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or management has expressed a substantive commitment to increase benefit obligations.

Sales
- There may be losses from sales commitments.
- There may be losses from purchase commitments.
- Nature of the product or industry indicates the possibility of undisclosed sales terms.

.10 The auditor generally should consider the need for additional customizing of the example representation letter given in section 1001 A and for the additional representations in paragraph 1001.09. Many of the representations may have to be qualified, especially in an initial audit or in later audits where significant problems remain. For instance, where the example representation letter states that there are no violations of laws or regulations, the entity may need to add at the end of the statement, "except as follows:" and describe the violations.

.11 In addition, the auditor generally should consider whether circumstances may require that additional descriptive items be included in the representation letter, especially as support for conclusions the auditor makes in the audit. This is important where the corroborating information that can be obtained by procedures other than inquiry is limited. For example, the letter should include descriptions of (1) the reasons for audited-entity-imposed scope limitations, such as lack of availability of certain records, (2) the basis for material liability estimates, key asset valuations, or the probability of contingencies, and (3) significant plans or intentions for the entity. For example, if the entity has a pension plan outside of the Civil Service Retirement System or the Federal Employees' Retirement System, an item should state that the entity does not plan to terminate the plan and that management believes the actuarial assumptions and methods used to measure pension liabilities and costs for financial reporting purposes are appropriate in the circumstances.

REPRESENTATIONS RELATING TO INTERNAL CONTROL

.12 Internal control representations when the auditor opines on internal control are found in AT 501.44 (SSAE 10, paragraph 5.44). These representations relate to management's (1) acknowledging its responsibility for internal control, (2) stating that management has assessed the effectiveness of its internal control and specifying the control criteria used, (3) stating management's assertion about the effectiveness of its internal control based on the control criteria, (4) stating that management has disclosed to the auditor all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and pointing out those that are material weaknesses (using the definition in the representation letter, which is the definition in AU 325), (5) describing any fraud, and (6) stating whether there were any changes to internal control subsequent to the end of the reporting period. Where the auditor is not opining on internal control, he or she should delete representations 2 and 3 above. Depending on circumstances, the auditor should consider modifying representation 4 above to remove the phrase "pointing out those that are material weaknesses." The auditor also should modify the introductory paragraph to the representation letter.

.13 For items 2 and 3, the auditor expects entities to use criteria established under FMFIA and OMB Circular A-123 in their FMFIA internal control assessment. Standards in GAO's green pamphlet *Standards for Internal*

Control in the Federal Government were established as standards for federal entities to follow, and they were incorporated by OMB into Circular A-123. The November 1999 update to these standards (GAO/AIMD-00-21.3.1) is effective for fiscal year 2000 FMFIA reports and incorporates concepts from the private sector guidance *Internal Control—Integrated Framework* by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Entities should summarize in the representation letter any material weaknesses relating to financial reporting (including safeguarding), compliance (including budget), and performance measures controls. Example wording for the representations is given in section 1001 A for the case where management asserts that its internal control as of the date of the financial statements provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or required supplementary stewardship information would be prevented or detected on a timely basis. If there are material weaknesses, management should include a brief description of them in its representation letter and modify its assertion accordingly.

.14 For entities that have not formally assessed the effectiveness of their internal control, AT 501 (SSAE 10, chapter 5) provides that the auditor may assist management in its assessment by gathering or preparing information that management can use in evaluating the effectiveness of its internal control. The auditor may also use the information in forming an opinion on internal control. Thus, the example representations are appropriate for inclusion in the management representation letter if management and the auditor agree on the conclusions regarding the effectiveness of internal control.

REPRESENTATIONS RELATING TO FINANCIAL MANAGEMENT SYSTEMS' SUBSTANTIAL COMPLIANCE WITH FFMIA REQUIREMENTS

.15 FFMIA requires the auditor who performs a CFO Act audit to report whether the entity's financial management systems comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards (now recognized as generally accepted accounting principles), and (3) the SGL at the transaction level. In order to report in accordance with FFMIA, the auditor should obtain representations from management as to the entity's systems' compliance with these requirements.

.16 The auditor should obtain representations that management takes responsibility for complying substantially with the FFMIA requirements, stating that it has assessed the systems' compliance, stating the criteria used, and asserting the systems' substantial compliance (or lack thereof). The criteria should be the requirements in OMB Circular A-127, *Financial Management Systems* (which incorporates the SGL, the JFMIP *Federal Financial Management Systems Requirements* documents, and other OMB circulars). These requirements are further described, including indicators of substantial compliance, in OMB's FFMIA implementation guidance for CFOs and IGs, referenced in OMB's audit guidance.

REPRESENTATIONS RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS

.17 AU 801.07 suggests that a representation relating to compliance with laws and regulations state that management has identified and disclosed to the auditor all laws and regulations that have a direct and material effect on the financial statements.

.18 In addition, AT 601 (SSAE 10, chapter 6) deals with compliance attestation. The auditor is not required to follow this standard because it does not apply to audits reporting on compliance as part of an audit of financial statements or on audits reporting in accordance with *Government Auditing Standards*. However, in situations in which the auditor believes additional representations regarding compliance may be needed, examples are given in AT 601.68 (SSAE 10, paragraph 6.68).

EFFECT OF CHANGE IN MANAGEMENT ON REPRESENTATION LETTER

.19 Sometimes management is reluctant to sign representations for periods when it did not manage the entity. The auditor should explain to management that by issuing the financial statements, it is making the assertions implicit in the financial statements. Management may wish to understand the transactions and controls supporting the financial statements, and the auditor should help it do so. Where a change in management is expected, the auditor may advise the new management to obtain representations from the old management about the period prior to the change.

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1001 A - EXAMPLE MANAGEMENT REPRESENTATION LETTER

[Entity Letterhead]

[Date of auditor's report and completion of fieldwork]

The Honorable [name of Inspector General or Comptroller General]
[Inspector or Comptroller] General [of the United States]
[Name of agency] [or U.S. General Accounting Office]
Washington, D.C.

Dear [name]:

This letter is in connection with your audits of the [entity's] balance sheet as of September 30, 20X1 and 20X2, [or dates of audited financial statements] and the related statements of net costs, changes in net position, budgetary resources, financing, and custodial activity [if applicable], for the years then ended for the purposes of (1) expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, (2) expressing an opinion [or reporting] on [entity's] internal control as of September 30, 20X2 [or date of latest audited financial statements], (3) reporting whether the [entity's] financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level as of September 30, 20X2, and (4) testing for compliance with applicable laws and regulations.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve $X or more. Items also are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the audits (these representations are as of [date of completion of fieldwork], pertain to both years' financial statements, and update the representations we provided in the prior year):

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with generally accepted accounting principles.

2. The financial statements are fairly presented in conformity with generally accepted accounting principles.

3. We have made available to you all

   a. financial records and related data,

   b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared, and

   c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [An example accompanying schedule is included in section 595 C.] [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe

that items XX and XX do not constitute misstatements because [description of reason]."] [This representation is required for audits of financial statements for periods beginning on or after December 15, 1999.]

6. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.

7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

8. Guarantees under which the [entity] is contingently liable have been properly reported or disclosed.

9. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees, have been properly recorded and disclosed.

10. All intraentity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by OMB Bulletin 97-01, as amended.

11. There are no

    a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,

    b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or

    c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

13. No material events or transactions have occurred subsequent to September 30, 20X2 [or date of latest audited financial statements], that have not been properly recorded in the financial statements and stewardship information or disclosed in the notes.

14. There has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements or stewardship information) or any fraud involving management or employees who have significant roles in internal control. [If there were any incidents of fraud meeting the foregoing criteria, they should be described.]

15. We are responsible for establishing and maintaining internal control.

16. Pursuant to the Federal Managers Financial Integrity Act, we have assessed the effectiveness of [entity's] internal control in achieving the following objectives:

    a. reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;

    b. compliance with applicable laws and regulations—transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and

    c. reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

17. Those controls in place on September 30, 20X2 [or date of latest audited financial statements], provided reasonable assurance that the foregoing objectives are met.

    [If there are material weaknesses, the foregoing representation should be modified to read:

    Those controls in place on September 30, 20X2, provided reasonable assurance that the foregoing objectives are met except for the effects of the material weaknesses discussed below or in the attachment.

    or: Internal controls are not effective.

    or: Internal controls do not meet the foregoing objectives.]

18. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses. [This item is not required if the auditor is not opining on internal control.]

19. There have been no changes to internal control subsequent to September 30, 20X2 [or date of latest audited financial statements], or other factors that might significantly affect it. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.] [This item is not required if the auditor is not opining on internal control.]

20. We are responsible for implementing and maintaining financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level.

21. We have assessed the financial management systems to determine whether they comply substantially with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.

22. The financial management systems complied substantially with federal financial management systems requirements, federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level as of [date of the latest financial statements].

    [If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as follows:

    > As of [date of financial statements], the [entity’s] financial management systems comply substantially with [specify which of the three elements for which there is substantial compliance (e.g., federal accounting standards and the SGL at the transaction level)], but did not comply substantially with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)], as described below (or in an attachment).]

    [If the financial management systems do not comply substantially with any of thee three elements, the following paragraph should be used instead:

    > As of [date of financial statements], the [entity's] financial management systems do not comply substantially with the federal financial management systems requirements.]

    [If there is a lack of substantial complliance with one or more of the three requirements, identify herein or in an attachment all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.]

23. We are responsible for [entity's] compliance with applicable laws and regulations.

24. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

25. We have disclosed to you all known instances of noncompliance with laws and regulations.

____
[Name of Head of Entity]
[Title]

____
[Name of Chief Financial Officer]
[Title]

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1002 – INQUIRIES OF LEGAL COUNSEL

.01 This section provides guidance on procedures for the auditor to perform to obtain evidence that the financial accounting and reporting of contingencies[1] regarding litigation, claims, and assessments conform with U.S. generally accepted accounting principles (GAAP), as described in FAM sections 280 and 550. This section discusses the accounting and reporting guidance and audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments, and includes examples of a legal representation letter request, a legal representation letter response, including the Department of Justice's standard forms for legal contingencies, and management's schedule for summarizing the information contained in the legal response.

ACCOUNTING AND REPORTING GUIDANCE

.02 Entity management is responsible for implementing policies and procedures to identify, evaluate, account for, and disclose litigation, claims, and assessments as a basis for the preparation of financial statements in conformity with GAAP.

.03 Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government,* contains accounting and reporting standards for loss contingencies, including those arising from litigation, claims, and assessments.[2] The Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions,* clarifies GAAP related to claims to be

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1 Environmental and disposal liabilities are a type of contingency that is often a significant issue.

2 SFFAS No. 7 has guidance for reporting claims for tax refunds. Rather than recognizing probable claims and disclosing other claims in the notes to the financial statements, SFFAS No. 7 indicates that other claims for refunds that are probable should be included as supplementary information.

paid through the Treasury Judgment Fund.[3] Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies,* also provides guidance for financial accounting and reporting for loss and gain contingencies for those entities following GAAP for nongovernmental entities. The definition of probable for legal contingencies is now essentially the same in Statement of Financial Accounting Standard No. 5 and SFFAS No. 5, since SFFAS No. 12 has amended the latter.

.04 A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. SFFAS Nos. 5 and 12 use the terms probable, reasonably possible, and remote to identify three areas within the range of potential loss, as follows:

- Probable—For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. (For other contingencies, the future event or events are more likely than not to occur.)

- Reasonably possible—The chance of the future event or events occurring is more than remote but less than probable.

- Remote—The chance of the future event or events occurring is slight.

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[3] A permanent, indefinite appropriation, commonly known as the Judgment Fund, is available to pay final judgments, settlement agreements, and certain types of administrative awards against the United States when payment is not otherwise provided for. The Secretary of the Treasury certifies all payments from the fund. (See 31 U.S.C. 1304, Judgments, awards, and compromise settlements.) FASAB Interpretation No. 2 clarifies how federal entities should report the costs and liabilities arising from claims to be paid by the Judgment Fund and how the Judgment Fund should account for the amounts that it is required to pay on behalf of federal entities.

.05 A liability and the related cost for an estimated loss from a loss contingency should be recognized (accrued by a charge to income) when[4]

a. a past event or exchange transaction has occurred,

b. a future outflow or other sacrifice of resources is probable, and

c. the future outflow or sacrifice of resources is measurable.

.06 Disclosure of the nature of an accrued liability for loss contingencies, including the amount accrued, may be necessary for the financial statements not to be misleading. For example, if the amount recognized is large or unusual, disclosure should be considered. However, if no accrual is made for a loss contingency because one or more of the conditions in paragraph 1002.05 are not met, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss has been incurred. The disclosure should include the nature of the contingency, and an estimate of the possible liability or range of possible liability, if estimable, or a statement that such an estimate cannot be made. In addition, if the Judgment Fund might be involved in the payment of the possible loss, the federal entity involved in the litigation should discuss the Judgment Fund's role in a note to the financial statements.

.07 Although management often relies on advice of legal counsel about the (a) likelihood of an unfavorable outcome and (b) estimates of the amount or range of potential loss for litigation, claims, and assessments, management is ultimately responsible for determining whether these contingencies are probable, reasonably possible, or remote. Management does this to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements. Thus, the Office of Management and Budget's (OMB) audit guidance requires CFO Act agency management to prepare a schedule summarizing legal contingencies including whether they are probable, reasonably possible, or remote, and whether (and in what amounts) they have been accrued or disclosed in the financial statements (see example summary schedule in FAM section 1002 D).

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[4] If the Judgment Fund will pay the claim, the entity should still recognize the liability and cost at this time. Once the claim is settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for payment, the entity should reduce the liability by recognizing an (imputed) financing source. Note that for Judgment Fund payments made under the Contract Disputes Act and in employment discrimination cases, the entity should instead establish a payable to reimburse the Judgment Fund.

AUDIT PROCEDURES

.08 The auditor should design procedures to test the entity's accounting for and disclosure of litigation, claims, and assessments. AU 337 (SAS 12) provides guidance on the procedures to identify litigation, claims, and assessments so that the auditor may obtain evidence that they are appropriately accounted for and disclosed. AU 9337 provides auditing interpretations of AU 337. OMB guidance for audits of federal financial statements also contains procedures for inquiries of legal counsel. (See FAM section 1002 A for example audit procedures.)

.09 The auditor should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:

a. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to an entity arising from litigation, claims, and assessments.

b. The period in which the underlying causes for legal action occurred.

c. The likelihood of an unfavorable outcome (probable, reasonably possible, or remote).

d. The amount or range of potential loss, if estimable.

.10 The auditor should discuss with management the events or conditions that should be considered in the accounting for and reporting of litigation, claims, and assessments. The auditor should perform audit procedures to corroborate the information provided by management, including requesting that management send a legal letter request to the entity's legal counsel. An example audit program is in FAM section 1002 A. The audit procedures should be modified, as appropriate, for the particular entity.

.11 A letter from legal counsel to the auditor, in response to a legal letter request from management to legal counsel, is the auditor's primary means of corroborating the information furnished by management concerning the accuracy and completeness of litigation, claims, and assessments. The legal letter request may include a list of pending or threatened litigation, claims, and assessments or a request by management that legal counsel prepare the list. The legal letter request also may include a list of unasserted claims and assessments considered probable of assertion, and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, to which legal counsel has devoted substantive attention on the entity's behalf in the form of legal consultation or representation (or a statement that management is not aware of any matters meeting the criteria). Legal counsel then would supplement management's information about those unasserted claims and assessments, including an explanation of matters where his or her views differ from those expressed by management in the legal letter request. In the federal government, where the general counsel may be part of management, the general counsel may instead provide the list of unasserted claims or assessments meeting the above criteria. The legal letter request should also include a request for legal counsel to make a statement that he or she will advise management about unasserted claims and assessments that should be considered for disclosure. (See the example request and response in FAM sections 1002 B and 1002 C.)

Timing of Legal Letter Request and Responses

.12 The audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments should be performed on a timely basis to give priority to the resolution of potential problem areas and to complete other procedures. To meet deadlines, the auditor, entity management, and legal counsel should coordinate the timing of legal letter requests, responses (including interim responses), and related management schedules. The auditor and the entity management should consider the due dates for providing legal letter responses for the entity financial statements as well as for the U. S. Government's Consolidated Financial Statements. (OMB sometimes provides these dates for the governmentwide audit.) The due dates should enable the auditors to timely complete their work, including the potential need for management to inquire of Department of Justice legal counsels on a case-specific basis.

.13 In addition, when an entitywide audit team uses the work of entity component audit teams, the entitywide and component audit teams should coordinate the timing of legal letter requests, responses, and management schedules and consider the due dates for the component financial statements as well as the entitywide financial statements. The entitywide team generally should receive copies of the component letters.

.14 The legal counsel's response should include matters that existed at the balance sheet date and through the end of fieldwork. The effective date (the latest date covered by the legal counsel's review) should be as close as feasible to the completion of fieldwork. If the effective date is substantially in advance of the end of fieldwork (for example, earlier than 2 weeks before end of fieldwork), the auditor should contact the legal counsel for an updated response. To avoid this situation, the legal letter request should clearly specify the period the legal counsel's response should cover and the date the auditor should receive the response.

.15 To assist the auditor in completing the review of legal matters in a timely manner (and to assist management in preparing the financial statements), the auditor may ask management to request legal counsel to submit a preliminary or interim response covering matters that existed at the balance sheet date and through a point in time reasonably before the end of fieldwork so that a preliminary evaluation of the significance of material legal matters can be made. Then, the legal counsel should submit a final or updated response covering matters through the end of fieldwork. The updated response generally should contain only changes or a statement indicating there are no changes from the interim response. (See FAM section 1002 B for an example legal letter request that includes requests for interim and updated responses from legal counsel.)

Determining a Materiality Level

.16 The auditor may limit the inquiry to matters that are considered individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding and agreement on the materiality level. The materiality level, if used, should be documented in the legal letter request and in the response.

.17 In determining a materiality level for the legal letter, the auditor should set the level sufficiently low that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with (1) other cases not included in the letter, (2) all other types of contingencies, (3) all other items that would not be adjusted because they are judged immaterial (unadjusted misstatements), (4) all other amounts in the financial statements that would not be tested directly because they were judged to be immaterial, and (5) all other items resolved on the basis of materiality considerations. For example, 2.5 percent of design materiality is used for individual cases in the U.S Government's Consolidated Financial Statements and 5 percent of design materiality is used for the aggregate of all cases.

.18 In aggregating cases, the auditor and the entity may use two levels of aggregation. First, similar cases (such as employment discrimination cases, harbor maintenance fee cases, spent nuclear fuel cases, or military promotion board challenges) should be aggregated and treated as a group and compared with the individual materiality level. The aggregation generally should include a list of the individual cases that are aggregated and a discussion of the items of information requested to be included in the legal letter for the aggregated cases (see FAM sections 1002 B and 1002 C). Second, all cases not included in the legal letter individually or as part of a group of similar cases should be aggregated. A higher materiality level may be used for such an aggregation; however, this higher materiality level should be set sufficiently low that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with the other items listed in the previous paragraph.

.19 Where the entity engages more than one legal counsel, the auditor should exercise caution so that matters considered not material individually would not, when aggregated, exceed the materiality limit. In addition, when separate legal representation letters are issued on individual components/bureaus of a consolidated entity because of individual component audits, the auditor may determine materiality levels for each component/bureau.

Legal Counsels from Whom Information Should Be Requested

.20 Most federal agencies have a general counsel who has primary responsibility for and knowledge about the entity's litigation, claims, and assessments. The auditor should request entity management to send a legal letter request to the general counsel. In addition, the auditor should ask the management and/or general counsel whether the entity used outside legal counsel whose engagement may be limited to particular matters (e.g., specific litigation).

.21 In the federal government, the main legal counsel outside of the entity is the Department of Justice.[5] The entity's management, its legal counsel, or the auditor may consult with Justice as well as other outside legal counsel to assure completeness and accuracy of the presentation of matters related to litigation, claims, and assessments. Such consultation may include requesting a list of pending litigation, claims, and assessments from Justice or other outside legal counsel, or discussion of specific cases.

.22 The legal response should cover all litigation, claims, and assessments pertaining to the federal reporting entity, including matters handled by Justice and other outside legal counsel on behalf of the entity. If the general counsel has overall responsibility for handling and evaluating litigation, claims, and assessments, his or her evaluation and responses ordinarily would be considered adequate.

[5] The Accounting and Auditing Policy Committee (AAPC) guidance (Technical Release No. 1) clarifies FASAB Interpretation No. 2, with respect to the Department of Justice's role related to legal letters in cases in which Justice's legal counsels are handling legal matters on behalf of other federal reporting entities. The letter from the entity's general counsel may provide sufficient evidence for the auditor. If the auditor determines that additional evidence is needed about a specific case, the auditor may request entity management and legal counsel to send a legal letter request to Justice, directed to the lead Justice legal counsel handling the case, asking that person to provide a description and evaluation directly to the auditor.

However, evidential matter obtained from inside legal counsel is not a substitute for information that outside legal counsel refuses to furnish to the auditor.

.23 Where there is no general counsel and management has not consulted legal counsel, the auditor should obtain a written representation from management that legal counsel has not been consulted. Such representation may be incorporated as an item in the management representation letter. (See FAM sections 550 and 1001.) (An example item is: "We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with SFFAS No. 5. We have not consulted legal counsel concerning litigation, claims, or assessments.")

Evaluation of Responses

.24 Written responses from legal counsel will vary considerably in the scope of information provided and in the opinion expressed. In preparing the responses, legal counsels should consider the guidance contained in the American Bar Association's *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (ABA Policy Statement) (included in its entirety in AU 337 C). If legal counsel does not follow the ABA Policy Statement in responding to the auditor, the legal counsel's response nevertheless should meet the requirements of AU 337.

.25 The response should cover all components included in the financial statements being audited. Legal counsel generally should indicate the disposition of cases included in the prior year's letter that are no longer contingencies.

.26 The auditor should evaluate each response in terms of sufficiency as evidence and consider (a) the possible limitations on the scope of legal counsel's responses and (b) the lack of sufficient opinion on the resolution of a case. AU 9337 provides guidance in evaluating legal counsel's responses. The auditor also should consider the legal counsel's response in light of any other information that comes to the auditor's attention.

<u>Possible Limitations on the Scope of Legal Counsel's Responses</u>

.27 When legal counsel limits his/her responses, the auditor should determine whether the limitation affects the auditor's report. A legal counsel may appropriately limit responses to certain matters; for example, to matters that (a) the legal counsel has given substantive attention to in the form of legal consultation or representation and (b) are considered individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding on materiality levels. These limitations are acceptable and not limitations on the scope of the audit.

.28 The following are examples of limitations on legal counsel's responses that are not acceptable to the auditor and that would ordinarily result in a scope limitation:

a. Legal counsel refuses to furnish the requested information. When legal counsel refuses to furnish the information requested in the legal letter request, the auditor should consider this matter as a scope limitation sufficient to preclude an unqualified opinion.

b. Legal counsel excludes matters requested. The legal counsel's responses may not address all information requested. The auditor should compare legal counsel's response with the legal letter request and determine whether legal counsel has addressed all the information requested. If legal counsel excluded any of the requested matters, the auditor should obtain responses for those matters from legal counsel. If the auditor is unable to obtain all the information needed, the auditor should consider this a scope limitation that could be sufficient to preclude an unqualified opinion.

c. Legal counsel indicates that certain information is being withheld due to attorney-client privilege. Under the American Bar Association (ABA) Code of Professional Responsibility, legal counsel is required to preserve the confidences and secrets of the client. Legal counsel may disclose confidences to the auditor only with the consent of the client. If the legal letter request is prepared in accordance with AU 337, the auditor should expect that legal counsel would be responsive; otherwise the scope of the audit would be restricted. (On the other hand, explanatory language in the legal letter request or in legal counsel's response emphasizing that management or legal counsel does not intend to waive attorney-client privilege or attorney work-product privilege does not result in a scope limitation.)

<u>Lack of Sufficient Opinion on the Resolution of a Case</u>

.29 The following are examples of the legal counsel's responses that lack sufficient opinion on the resolution of a case.

a. Uncertainties. A legal counsel may be unable to respond concerning the likelihood of an unfavorable outcome of litigation, claims, and assessments or the amount or range of potential loss, because of inherent uncertainties. In these circumstances, the auditor ordinarily will conclude that the financial statements are affected by an uncertainty concerning the outcome of a future event, which is not susceptible to reasonable estimation. The auditor should follow the guidance in FAM section 580 for reporting on uncertainties.

b. Unclear responses. Legal counsels sometimes use general terms to indicate their evaluation of the outcome of a case. The ABA Policy Statement states that legal counsel may, in the appropriate circumstances, communicate to the auditor his/her view that an unfavorable outcome is "probable" or "remote." The legal letter responses may include phrases that mean remote or probable. The phrases below are examples of opinions that provide sufficient clarity that the likelihood of an unfavorable outcome is remote:

- "We are of the opinion that this action will not result in any liability to the entity."
- "We believe that the plaintiff's case against the entity is without merit."

The following are examples of opinions that indicate significant uncertainty as to whether the entity will prevail:

- "In our opinion, the entity has a substantial chance of prevailing in this action." (A "substantial chance," a "reasonable opportunity," and similar terms indicate more uncertainty than an opinion that the entity will prevail.)
- "It is our opinion that the entity will be able to assert meritorious defenses to this action." (The term "meritorious defenses" indicates that the court will not summarily dismiss the entity's defenses; it does not indicate legal counsel's opinion that the entity will prevail.)

.30 To avoid unclear and incomplete responses, the auditor generally should ask management to request legal counsel to use Justice's standard forms to describe legal contingencies (see pages 1002 C-4 to 6 for examples of these forms). When legal counsel does not indicate whether the unfavorable outcome is probable or remote, management and the auditor should conclude that the outcome is reasonably possible and the case should be considered for disclosure. (Management, with legal counsel's advice, determines whether cases are probable, reasonably possible, or remote, to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements.)

.31 If the auditor is not certain about the legal counsel's evaluation, the auditor should discuss the matters with the legal counsel and entity management (and document the oral discussion) and/or obtain written clarification in a follow-up letter. Sometimes legal counsel may give a clearer indication of likelihood orally. If legal counsel is unable to give a clear evaluation of the likelihood of an unfavorable outcome, management should disclose the uncertainty and the auditor should consider the uncertainty's effect on the audit report.

Example Legal Letter Request

.32 The legal letter request, which the auditor may assist management to draft, should be on the audited entity's letterhead, signed by the Chief Financial Officer (CFO), or equivalent, and request a reply directly to the auditor and a copy to management by specified due dates. FAM section 1002 B shows an example legal letter request that includes requests for interim and updated responses from legal counsel and matters that should be covered in the letter.

Example Legal Counsel's Responses and Management's Schedule

.33 The General Counsel should respond on General Counsel letterhead to the auditor with a copy to management by the agreed-upon due dates. The response should indicate that it is provided for the auditor's use in connection with the audit.

.34 FAM section 1002 C shows an example of a legal counsel response, including the legal representation letter and Justice's legal contingency standard forms for each case or group of cases, respectively. Justice's forms (pages 1002 C-4 to 6) are on Justice's website: http://www.usdoj.gov/civil/forms/forms.htm.

.35 FAM section 1002 D shows an example of management's schedule that documents how the information contained in the legal counsel's responses was considered in preparing the financial statements. Management should include each case discussed in the legal letter and indicate (1) the amount accrued for probable cases and (2) note disclosure for reasonably possible cases, probable cases where the amount cannot be estimated, and probable cases where a range of amounts above the accrued amount is estimated. The electronic templates for FAM sections 1002 C (pages 1002 C-1 to 3) and 1002 D are on OMB's website: http://www.whitehouse.gov/omb/bulletins/index.html.

PRACTICE AIDS

.36 The following practice aids are appended:
Section 1002 A – Example Audit Procedures;
Section 1002 B – Example Legal Letter Request;
Section 1002 C – Example Legal Representation Letter, including Justice's Example Legal Contingencies Forms; and
Section 1002 D – Example Management Summary Schedule.

1002 A – EXAMPLE AUDIT PROCEDURES FOR INQUIRIES OF LEGAL COUNSEL

Entity ____

Period of financial statements ____________________________________

Job code ____

Example Audit Procedures	Done by/date	W/P ref
I. Testing Procedures 1. Ask management about the entity's policies and procedures for identifying, evaluating, and accounting for litigation, claims, and assessment.		
2. Obtain from management a description and evaluation of litigation, claims, and assessments existing as of the balance sheet date and through the date of management's response (which should be near the end of fieldwork). (This may instead be obtained from the entity's legal counsel.)		
3. To determine whether an outside legal counsel is performing services for the entity, inquire of management whether outside legal counsel has been used by the entity and matters handled. Ask management for a list of pending litigation, claims, and assessments from the Department of Justice and/or examine correspondence and invoices from other outside legal counsel (e.g., for legal fees), if any.		

Example Audit Procedures	Done by/date	W/P ref
4. Ask whether the entity has changed its general counsel or outside legal counsel or the general counsel or outside legal counsel has resigned or has indicated an intention to resign. If so, determine if there are matters that may affect the financial statements. For example, in appropriate circumstances, a legal counsel may be required by the ABA Code of Professional Responsibility to resign the engagement if the legal counsel's advice concerning disclosures is disregarded by the entity.		
5. To identify litigation, claims, and assessments read minutes of management meetings, contracts, loan agreements, leases, and correspondence from other government entities and discuss pertinent items with management.		
6. If information comes to the auditor' s attention that may indicate a potential contingency with respect to litigation, claims, or assessments that may require adjustment to or disclosure in the financial statements, discuss with the entity its possible need to consult legal counsel. Depending on the severity of the matter, refusal by the entity to consult legal counsel in those circumstances may result in a scope limitation. Consider the effect of such a limitation on the auditor's report.		

Example Audit Procedures	Done by/date	W/P ref
7. Request entity management to send a legal letter request to the general counsel asking counsel to respond directly to the auditor. (Obtain a copy of the legal letter request.) Consider whether to also request legal letters from any outside legal counsel. The legal letter should cover litigation, claims, and assessments pertaining to the reporting entity, including matters handled by the Department of Justice or other outside legal counsel. (See Sections 1002 B for an example legal letter request.) Coordinate with management and legal counsel to • determine the timing of legal letter requests and responses and related management's summary/schedules of information contained in legal responses and • determine a materiality level to be included in the legal representation letter.		
8. Read the legal letter responses and management's schedules to identify litigation, claims, and assessments.		
9. Compare the description and evaluation of the current year's legal letter responses to the prior year's audit documentation. If this comparison indicates that certain legal matters in the prior year are no longer included, discuss these matters with management or legal counsel to obtain an understanding of the reasons for the changes.		
10. Determine whether the information in the legal representation letter is consistent with management's schedule summarizing the information in the letter and related supporting documentation.		
11. Discuss with legal counsel if the information obtained is not complete, clear, or consistent.		
12. Evaluate legal counsel's responses and determine the effects of the responses on liabilities and related note disclosures in the financial statements and on the auditor's report.		

Example Audit Procedures	Done by/date	W/P ref
13. If a response date is substantially in advance of the audit report date, for example, earlier than 2 weeks prior to date of auditors' report, obtain a written or oral update response. (The longer the period between the legal letter and the audit report date, the more important a written update becomes.)		
II. Reporting Procedures Obtain a representation from management in the management representation letter (see FAM sections 550 and 1001) that the entity has disclosed all unasserted claims that legal counsel has advised are probable of assertion that, if asserted, would have at least a reasonable possibility of an unfavorable outcome and must be disclosed. 1. Discuss the description and evaluation of litigation, claims, and assessments obtained with management to determine if, subsequent to the date of legal counsel's response, there have been any changes in status of the matters, changes in management's evaluation of the outcome, or additional matters to be considered.		
2. If there are significant changes in the status of the matters or new matters, obtain a written confirmation or updated response from legal counsel.		
3. Have management include in the management representation letter representations related to contingencies and determine if they are appropriately accrued and disclosed as required by SFFAS No. 5, as amended. If management has not consulted legal counsel, obtain a written representation from management that legal counsel has not been consulted. This representation may be incorporated in the management representation letter (see FAM sections 550 and 1001).		

Example Audit Procedures	**Done by/date**	**W/P ref**
4. Read the entity's financial statements and notes and a. consider the adequacy of financial statement disclosure for contingencies with respect to litigation, claims, and assessments;		
b. determine if the financial statement disclosures for contingencies with respect to litigation, claims, and assessments are prepared in accordance with the OMB guidance on form and content of agency financial statements; and		
c. for federal entities involved in litigation for which the Judgment Fund is a likely source of judgment or settlement, determine if a note to the financial statements discusses the Judgment Fund's role in the payment of a possible loss, as required by FASAB Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*.		
5. Document conclusions reached concerning the accounting for and disclosure of litigation, claims, and assessments, determine if adjustments are necessary, and consider whether modification of the auditor's report is appropriate (see FAM section 580).		

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1002 B – EXAMPLE LEGAL LETTER REQUEST

[Audited Entity Letterhead]

Date: [date]

To: General Counsel

From: Chief Financial Officer [signed]

Subject: [Auditor 's] Audits of the Fiscal Years 20X1 and 20X0 Financial Statements

Pursuant to 31 U.S.C. 3515, [Auditor name] is performing audits of the financial statements of [entity] as of and for the fiscal years ended September 30, 20X1, and 20X0. In performing audits of government entities, auditors comply with *Government Auditing Standards*, issued by the Comptroller General of the United States (the "yellow book"). For financial statement audits, *Government Auditing Standards* incorporate the fieldwork and reporting standards of the American Institute of Certified Public Accountants (AICPA) and the Statements on Auditing Standards that interpret them. Consistent with the procedures contained in AU 337 of the AICPA's *Codification of Statements on Auditing Standards*, [Auditor] has inquired about litigation, claims, and assessments to obtain evidence as to the financial accounting and reporting of such matters with respect to the financial statements. The purpose of this letter is to request your assistance in responding to that inquiry. The American Bar Association *Statement of Policy Regarding Lawyers' Responses to Auditors' Request for Information* (December 1975) provides relevant guidance for the lawyer 's response to the auditor 's request.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5, [entity] reports certain information in its financial statements and notes concerning contingent liabilities for litigation, claims, and assessments. We request that you provide [Auditor] (with a copy to me) with information on matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation. You should furnish an interim response by [agreed-upon date], including matters that existed as of September 30, 20X1, and from that date through at least [interim date]. You should furnish an updated response by [agreed-upon date], that is effective no earlier than [agreed-upon date], that includes any changes from the interim response or furnish a statement that there are no changes.

Include any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation, even those cases for which you believe the Judgment Fund or some financing source other than [entity]'s budgetary resources will pay any potential loss. Under generally accepted accounting principles, these amounts should be included as liabilities or disclosure items in the [entity]'s financial statements. Cases similar in nature should be aggregated where appropriate. It would be helpful if you could list the matters in order of the amount of potential loss, starting with the largest.

Pending or Threatened Litigation (excluding unasserted claims)

We and [Auditor] have determined that any matters for which the amount of potential loss exceeds $XX, individually or in the aggregate, could be material to the financial statements. Please provide to [Auditor] the information described below about pending or threatened litigation where the amount of potential loss exceeds $XX:

1. The nature of the matter. Include a description of the case or cases and amount claimed, if specified.
2. The progress of the case to date.
3. The government's response or planned response (for example, to contest the case vigorously or to seek an out-of-court settlement).
4. An evaluation of the likelihood of unfavorable outcome. Please categorize likelihood as probable (an unfavorable outcome is likely to occur), reasonably possible (the chance of an unfavorable outcome is less than probable but more than remote), or remote (the chance of an unfavorable outcome is slight).
5. An estimate of the amount or range of potential loss, if one can be made, for losses considered to be probable or reasonably possible.
6. The name of the [entity]'s legal counsel handling the case and names of any outside legal counsel/other lawyers representing or advising the government in the matter (Department of Justice or outside law firms).

Unasserted Claims and Assessments

[If legal counsel is a part of management use this paragraph.] Please provide the following information for all unasserted claims and assessments that you consider to be probable of assertion and which, if asserted, would have at least a reasonable possibility (more that remote) of an unfavorable outcome in an amount over $XX, individually or in the aggregate, involving matters to which you have devoted substantive attention.

[If the legal letter request will be sent to a legal counsel that is not part of management, such as an outside legal counsel, use this paragraph.] We have provided an attachment to this request that lists the unasserted claims and assessments that we believe are probable of assertion and which, if asserted, would have at least a reasonable possibility (more than remote) of an unfavorable outcome in an amount over $XX, individually or in the aggregate, involving matters to which you have devoted substantive attention. Please provide the following information for each matter and for any additional matters that you believe meet these criteria.

1. A description of the nature of the matter.
2. The government's planned response if the claim is asserted.
3. An evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable (likely to occur) or reasonably possible (less than probable but more than remote).)
4. An estimate of the amount or range of potential loss, if one can be made.

Please specifically confirm to [Auditor] that our understanding of the following is correct: Whenever, in the course of performing legal services for us, with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will (1) advise us of your conclusion and (2) consult with us concerning the question of such disclosure and the applicable requirements of SFFAS No. 5, as amended.

Please separately identify any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation for which you believe another government entity will be responsible for any potential liability.

Please specifically identify the nature of and reasons for any limitations on your response to this request.

Please address your reply to [Auditor], and contact him/her at (phone number), when your reply is available for pick up, and send a copy of your reply to me. Do not hesitate to contact me or [Auditor] if you have any questions about this request.

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1002 C – EXAMPLE LEGAL REPRESENTATION LETTER

[General Counsel Letterhead]

[Date]

[Auditor]
[Title]
[Agency or Firm Name]
[City]

Subject: Legal Response in Connection with the Fiscal Years 20X1 and 20X0 Financial Statement Audits of [entity name]

Dear [Auditor]:

As General Counsel of [entity], I am writing in response to the legal letter request from the [entity]'s Chief Financial Officer (CFO) dated [date], in connection with the audit of [entity]'s financial statements as of and for the fiscal years ended September 30, 20X1 and 20X0. [In an interim response, add "I will, as further requested by the CFO, provide an updated response by [date]."]

I call your attention to the fact that as General Counsel for [entity], I have general supervision of [entity]'s legal affairs. [If the general legal supervisory responsibilities of the person signing the letter are limited, set forth a clear description of those legal matters over which such person exercises general supervision, indicating exceptions to such supervision and situations where primary reliance should be placed on other sources.] In such capacity, I have reviewed litigation and claims threatened or asserted involving [entity] and have consulted with outside legal counsel about them when I have deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since [insert date of beginning of fiscal year period under audit] neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented [entity] in connection with loss contingencies [over the amount of (state materiality level agreed to with auditor and stated in request letter)] coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

[Describe litigation and claims that fit the foregoing criteria as follows (it is recommended that general counsels use the attached Department of Justice forms (one for pending or threatened litigation, another for unasserted claims) to describe the cases):][1]

Pending or Threatened Litigation (excluding unasserted claims)

1. Nature of the matter (include a description of the case or cases and amount claimed, if specified).
2. Progress of the case to date.
3. Current or intended response.
4. Evaluation of the likelihood of an unfavorable outcome (categorize likelihood as probable, reasonably possible, or remote).
5. Estimated amount or range of potential loss, if determinable, for losses considered to be probable or reasonably possible.
6. Name of [entity]'s legal counsel handling the case and names of any outside legal counsel representing or advising the government in the matter.

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter, as follows:

Unasserted Claims and Assessments (considered to be probable of assertion and which, if asserted, would have at least a reasonable possibility of an unfavorable outcome)

1. Nature of the matter.
2. Intended response if claim would be asserted.
3. Evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable or reasonably possible.)
4. Estimated amount or range of potential loss, if determinable.

The information set forth herein is [(as of the date of this letter) or (as of (insert date), the date on which we commenced our internal review procedures for purposes of preparing this response)], except as otherwise noted. [If an interim response, add "Upon submission of the updated response, which is due on [date],"] I disclaim any undertaking to advise you of changes that, thereafter, may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with, the ABA *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975); without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any

[1] It is expected that cases or matters will be aggregated where appropriate.

"loss contingencies" is qualified in its entirety by Paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct [entity]'s understanding that whenever, in the course of performing legal services for [entity] with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that the entity must disclose or consider disclosure concerning such possible claim or assessment, I, as a matter of professional responsibility to [entity], will so advise [entity] and will consult with [entity] concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5. [Describe any other or additional limitation as indicated by Paragraph 4 of the statement.]

Sincerely yours,

____

[Name of General Counsel]
[Title]

cc: Chief Financial Officer

SUGGESTED DEPARTMENT OF JUSTICE FORM

PENDING OR THREATENED LITIGATION

AGENCY/COMPONENT: ______________________________

Amount of potential loss exceeds the agency/component materiality threshold of: ______________________________

1. **Case name.** *(Include case citation, case number, and other names by which the case or group of cases is commonly known.)*

2. **Nature of matter.** *(Include a description of the case or cases and **amount claimed**, if specified.)*

3. **Progress of the case.**

4. **The government's response or planned response.** *(For example, to contest the case vigorously or to seek an out-of-court settlement.)*

5. **An evaluation of the likelihood of unfavorable outcome.** *(Choose one.)*

________ PROBABLE – An unfavorable outcome is likely to occur.

________ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

________ REMOTE – the chance of an unfavorable outcome is slight.

6. **An estimate of the amount or range of potential loss** *(if one can be made, for losses considered to be probable or reasonably possible).*

7. **The name and phone number of the government attorney handling the case** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)*

8. **The sequence number** *(based on the total number of pending or threatened cases in litigation, claims, and assessments the agency/component is submitting.*
e.g., Number ___ of ___)
(#) (total)

SUGGESTED DEPARTMENT OF JUSTICE FORM

UNASSERTED CLAIMS AND ASSESSMENTS

AGENCY/COMPONENT: ____________________

Amount of Potential Loss Exceeds the agency/component materiality threshold of: ____________________

1. **Name of Matter.** *(Include name by which the matter is commonly known.)*

2. **Nature of the Matter.** *(Include a description of the matter.)*

3. **The Government's Planned Response** *(if the claim is asserted).*

4. **An Evaluation of the likelihood of Unfavorable Outcome.** *(Choose one.)*

_______ PROBABLE – (An unfavorable outcome is likely to occur.)

_______ REASONABLY POSSIBLE – (the chance of an unfavorable outcome is less than probable but more than remote.)

5. **An Estimate of the Amount or Range of Potential Loss** *(if one can be made, for losses considered to be probable or reasonably possible).*

6. **The Name and phone number of the Government Attorney Handling the Matter** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter).*

7. **The Sequence Number** *(based on the total number of Unasserted Claims and Assessments the agency/component is submitting. e.g., Number ___ of ____).*
(#) (total)

Management should prepare this schedule (or equivalent) summarizing the information contained in the legal letters. In particular, management should conclude as to the likelihood of loss about each case to determine whether an amount should be recorded in the financial statements and/or if note disclosure is necessary for the financial statements to conform with GAAP. Although most information comes directly from the legal letter, the financial staff should add the information in the last two columns to indicate the disposition of each case in the financial statements.

Management's Schedule of Information Contained in Legal Letter Responses for Financial Reporting Purposes

Amounts in thousands

1	2	3	4	5			6	7
Reference key	Amount claimed	Name of case/ related cases	Likelihood of loss	Amount or range of potential loss			Disposition in financial statements	
				(a) P	(b) R/P	(c) Upper	Amt. recorded	Note disclosure
*****insert rows here as necessary*****			****insert rows here as necessary****			****insert rows here as necessary****		
TOTALS	$ -			$ -	$ -	$ -	$ -	$ -

Guidance for Preparation:

1. Matters should be listed on this schedule in order of the amount or range of potential loss, starting with the largest.
2. The level of aggregation should generally be at the same level as in the general counsel's letter. However, there may be instances where the level of aggregation is too high to be able to prepare this schedule in a way that is meaningful. In such cases, the CFO should work with legal counsel to provide further disaggregation of dissimilar cases. There may also be other instances in which a higher level of aggregation is desirable. CFOs should use professional judgment, considering the purpose of this schedule when determining the level of aggregation.

<u>**Column:**</u>

1 **Reference key:** Page number of legal representation letter obtained from General Counsel discussing the case, or other reference information.

2 **Amount claimed:** Amount claimed in the litigation, claim, or assessment (if specified)

3 **Name of case or related cases:** Where appropriate, provide name of case or aggregated cases which meet materiality threshold.

4 **Likelihood of loss:** Indicate management's evaluation of the likelihood of loss on individual or aggregated cases.

<u>Options:</u>
- **P:** probable (loss likely to occur);
- **R/P:** reasonably possible (the chance of loss is less than probable, but more than remote); or
- **R:** remote (the chance of loss is slight).

5 **Amount or range of potential loss:**

<u>Options:</u>
- **5a:** Probable (P) -- Provide single estimate or lower end of range, if known. Enter "U" if unknown. (Also provide column totals.)
- **5b:** Reasonably possible (R/P) -- Provide single estimate or lower end of range, if provided. Enter "U" if unknown. Also provide column totals.
- **5c:** If amounts in P or R/P are ranges, provide upper end of range; otherwise, enter "n/a."

6 **Disposition in financial statements - amount recorded:** If applicable, provide corresponding dollar amount recorded as a liability in the financial statements. (Also provide column totals.)

7 **Disposition in financial statements - note disclosure:** If applicable, indicate by note reference number where case information is separately disclosed or included in amounts disclosed in notes to the financial statements. (Also provide column totals.)

1003 - FINANCIAL STATEMENT AUDIT COMPLETION CHECKLIST

Entity: ____

Job Code: ____

Principal Report: ___________________________________
____

Other Reports (including management letters and testimonies): __________
____

INSTRUCTIONS

.01 This checklist is a tool to help auditors of financial statements comply with generally accepted government auditing standards (GAGAS) and with OMB audit guidance. This checklist should be completed before the report is issued and should be prepared by the audit manager and reviewed by the assistant director and audit director. If the audit is conducted at multiple sites, the site supervisor may complete parts of the checklist for each site (with the audit manager completing an overall checklist). While parts of the checklist are useful in audit planning, no specific signatures are required on the checklist in the planning phase.

.02 The detailed questions in this checklist are to be answered "N/A" (not applicable), "Yes," or "No." Check N/A when the item does not exist or when the item exists but is judged to be not material. It is not necessary to create additional documentation to support the Yes answers, but a column is provided to give a workpaper reference ("W/P"). All No answers should be discussed at the end of this checklist. Because the checklist is designed for the wide range of financial statement audits, there will be many "not applicable" answers. If the reason why a question is not applicable is not obvious, the auditor should document the reason on the checklist or in an attachment. The questions are summarized; for most questions, there is a reference to professional literature that provides more detail.

.03 Section V has questions on GAO's report considerations; section VI has questions on GAO's quality control. GAO auditors should complete these sections. IG auditors and other auditors may use these sections or may substitute forms that consider their reporting style and quality controls.

.04 As noted in FAM 650, auditors whose work GAO and the IGs use may complete this checklist and the "Checklist for Reports Prepared under the CFO Act." Where this has been done, GAO or IG auditors should review the checklists prepared by the other auditors.

.05 The FAM includes a separate "Checklist for Reports Prepared under the CFO Act" (section 1004) that covers accounting, financial reporting, and disclosure issues and should be completed for all entities reporting under generally accepted accounting principles promulgated by FASAB. When the report covers financial statements prepared using generally accepted accounting principles promulgated by FASB, the auditor should prepare the appropriate AICPA disclosure checklist.

.06 GAO auditors should prepare the "GAO workpaper set" that provides guidance on workpapers. IG and other auditors may develop similar tools.

.07 For GAO's financial audits, a second partner review should be performed and the Chief Accountant should read the report. These reviews by the second partner and/or Chief Accountant are documented on the last two pages of this checklist. IG auditors and other auditors should consider the need for similar reviews.

CONTENTS

Section

References:

AICPA Professional Standards (vol. 1) .... AU

GAO/PCIE Financial Audit Manual .... FAM

Government Auditing Standards, as amended .... GAGAS

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
1. Do the workpapers document that the audit team has established an understanding with the client as to the objectives of the work, management's responsibilities, auditors' responsibilities, and limitations of the work? (FAM 280)	___	___	___	___
2. Were entrance conferences held?	___	___	___	___
3. Does the entity profile (or equivalent) document an understanding of the entity sufficient to plan the audit? (FAM 290.03)	___	___	___	___
4. Do the workpapers contain an adequate general risk analysis or the equivalent? (FAM 290.04)	___	___	___	___
5. Did the audit team adequately perform and document the following planning steps? (FAM 290.04)				
a. Perform preliminary analytical procedures (FAM 225)	___	___	___	___
b. Determine planning, design, and test materiality (FAM 230)	___	___	___	___
c. Identify significant laws and regulations (FAM 245)	___	___	___	___
d. Identify relevant budget restrictions (FAM 250)	___	___	___	___
e. Understand the budget formulation process (FAM 260.51)	___	___	___	___
(continued on next page)				

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
5. (continued)				
f. Assess inherent risk and the overall effectiveness of the control environment, risk assessment, communication, and monitoring, including whether weaknesses in the control environment, risk assessment, communication, and monitoring preclude the effectiveness of specific control activities (FAM 260)	___	___	___	___
g. Assess the risk of fraud (FAM 260)	__	___	___	___
h. Design the audit to achieve an acceptable level of audit assurance that the financial statements are not materially misstated (GAO uses 95 percent) (FAM 260.04)	___	___	___	___
i. Consider the effects of information technology, including service centers (FAM 220, 260.17, 260.41-42, and 270)	___	___	___	___
j. Assess the FMFIA process (FAM 260.43)	___	___	___	___
k. Consider operations controls to be tested (FAM 275)	___	___	___	___
l. Understand performance measures controls (FAM 275)	___	___	___	___
m. Plan other procedures (representation letters, related party transactions, sensitive payments) (FAM 280)	___	___	___	___
n. Consider locations to be visited (FAM 285)	___	___	___	___
(continued on next page)				

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
5. (continued)				
o. Plan procedures to test whether the entity's financial management systems substantially comply with the requirements of FFMIA (FAM 350.20)	___	___	___	___
p. Consider staffing requirements	___	___	___	___
q. Consider timing of procedures and milestones (FAM 295 D)	___	___	___	___
r. Consider assistance from entity personnel	___	___	___	___
6. Does the general risk analysis or the equivalent reflect appropriate consideration of findings and recommendations from previous audits that could affect the current audit objectives? (GAGAS, par. 4.10)	___	___	___	___
7. Did the audit team identify budget controls for each relevant budget restriction and perform sufficient work to support the conclusions on internal control? (FAM 250, 310.05, 330.09)	___	___	___	___
8. Did the audit team identify compliance controls and perform sufficient work to support the conclusions on internal control? (FAM 245, 310.05, 330.09)	___	___	___	___
9. If the audit team used the work of others (CPA firms, IGs, internal auditors, or specialists), did the audit team meet the requirements of FAM 650?	___	___	___	___

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
10. Did the audit team perform overall analytical procedures, including documentation of the following?				
a. Expectations	___	___	___	___
b. Data/sources	___	___	___	___
c. Parameters	___	___	___	___
d. Explanations/corroboration	___	___	___	___
e. Conclusions (FAM 590.04)	___	___	___	___
11. Do the workpapers indicate that the audit team properly performed the following procedures in the reporting phase of the audit? (FAM 590.01)				
a. Evaluate misstatements (FAM 540)	___	___	___	___
b. Bring all misstatements to the attention of entity management (FAM 540.07)	___	___	___	___
c Obtain attorneys' representations (FAM 550.02)	___	___	___	___
d. Review subsequent events (FAM 550.04 and 1005)	___	___	___	___
e. Obtain management representations (FAM 550.08 and 1001)	___	___	___	___
f. Identify and test related party transactions (FAM 550.12 and 1006)	___	___	___	___
g. Review the consistency of other information accompanying the financial statements (FAM 580.76)	___	___	___	___

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
12. Does the audit summary memorandum or equivalent properly summarize or refer to workpapers addressing the following? (FAM 590.02-.03)				
a. Changes from original risk assessments	___	___	___	___
b. Additional fraud risk factors or other conditions identified during the audit calling for an additional response and the additional response	___	___	___	___
c. The basis for conclusions on significant auditing, accounting, and reporting issues	___	___	___	___
d. Conclusions on adequacy of procedures	___	___	___	___
e. Unadjusted misstatements	___	___	___	___
f. Conclusions on financial statements	___	___	___	___
g. Conclusions on internal control	___	___	___	___
h. Conclusions on whether the entity's financial management systems meet the requirements of FFMIA	___	___	___	___
i. Conclusions on compliance with laws and regulations	___	___	___	___
j. Conclusions on the consistency of accompanying information with the principal statements	___	___	___	___

Section I: Planning and Concluding the Audit	N/A	Yes	No	W/P
13. Do the workpapers document that the following occurred?				
a. Deviations from the "should" procedures in the FAM and the basis therefor were approved by the assistant director with copies of the documentation sent to the audit director and the Reviewer	___	___	___	___
b. Deviations from the "must" procedures in the FAM were approved by the Reviewer (FAM 100.27)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
Answer these questions for each key audit area or cycle. Indicate the key audit areas and cycles these questions apply to: ______________________________ ______________________________ ______________________________ ______________________________ ______________________________ ______________________________				
1. Did the audit team prepare the following documentation summarizing considerations in planning and performing the work in the key audit areas and cycles?				
a. Cycle Matrix or an equivalent (or documentation in Account Risk Analysis or an equivalent) showing links between accounts, cycles, applications and line items (FAM 290.05)	___	___	___	___
b. Account Risk Analysis or an equivalent (FAM 290.06)	___	___	___	___
c. Cycle Memorandum and/or flowchart or equivalents (FAM 390.04-.05)	___	___	___	___
d. Specific Control Evaluation or an equivalent (FAM 390.06)	___	___	___	___
e. Written audit program (AU 311.05)	___	___	___	___
2. If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU 311.05)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
3. When the audit team performed sampling, did it properly determine and document the following?				
a. The method used in relation to test objectives	___	___	___	___
b. Sample size and the method of determining it	___	___	___	___
c. Tests performed	___	___	___	___
d. Results (misstatements and deviations found)	___	___	___	___
e. Evaluation (including projection to the population)	___	___	___	___
f. Conclusion (FAM 490.06)	___	___	___	___
4. When the audit team performed substantive analytical procedures, did it properly document the following?				
a. Expectations and the method used to develop them	___	___	___	___
b. Data sources/reliability	___	___	___	___
c. Limit/criteria	___	___	___	___
d. Client explanations and corroborating evidence	___	___	___	___
e. Additional steps needed	___	___	___	___
f. Conclusions (FAM 490.06)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
5. When the audit team performed interim testing, did it do the following?				
a. Test the rollforward period	___	___	___	___
b. Properly document:				
i. The basis for using interim testing	___	___	___	___
ii. The procedures performed	___	___	___	___
iii. The effects of any misstatements found (FAM 495C.06)	___	___	___	___
6. Did the audit team evaluate the reasonableness of significant accounting estimates made by management? (AU 342)	___	___	___	___
7. Were known and likely misstatements identified in the testing of the key area carried forward to the summary of possible adjustments? (FAM 540.04)	___	___	___	___
8. Did an information systems auditor review the specific control evaluation to evaluate the audit team's decision on which controls are computer-related (including controls relating to service-center-produced records)? (FAM 350.09)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
9. Based on the inherent and control risk, did the audit team perform adequate substantive tests of the following? (If not a key area, check the N/A box.) <u>Fund Balance with Treasury (FBWT)</u> Consider these issues: • Did the audit team test the agency's year-end reconciliation of Fund Balances with Treasury to Treasury account ledgers and trial balance reports (Financial Management Service (FMS) Forms 6653, 6655)? • Did the audit team determine whether the auditee did the following? a. Researched and resolved differences before making adjustments b. Recorded any necessary adjustments in the agency's FBWT accounts c. Reported the adjustments to Treasury d. Disclosed in the notes to the financial statements material unreconciled differences and budget clearing account differences at year-end, and material unreconciled differences written off by the agency during the year? (continued on next page)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
Fund Balance with Treasury (continued) • Did the audit team assess (at absolute value) the materiality of unreconciled differences, such as those reported on the Statement of Differences (FMS form 6652) and those included in budget clearing accounts (such as budget accounts F3875, F3878, F3879)? (GAO/AIMD-97-104R)				
Receivables Consider these issues: • Where practical, were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU 330.30-.31) • If substantive test were performed prior to year-end, was there an adequate review of transactions from the interim date to the balance sheet date? (AU 313.08-.09) • If a significant number and amount of accounts receivable were not confirmed, were other appropriate auditing procedures performed? (AU 330.31-.32)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
Inventories Consider these issues: • Were physical inventories observed at all locations where material amounts were located? (AU 331) • If perpetual inventory records are maintained, do the workpapers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the financial statements? (AU 331) • When the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), did the auditor consider inventory transactions between the inventory date(s) and the balance sheet date? (AU 313.08-09) • Do the workpapers contain evidence that counts were correctly made and recorded (was control over inventory tags or count sheets maintained) and test count quantities were reconciled with the counts reflected in the final inventory? (AU 331.09) (continued on next page)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
Inventories (continued) • Were there adequate tests of the following? a. Clerical accuracy of the inventory b. Costing methods and substantiation of costs used in pricing all elements of the inventory c. Cutoff • Were analytical procedures used to test the overall valuation of inventories?				
Investments Consider these issues: • Was a summary schedule prepared (or obtained) and details tested with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments? • Were securities either examined or confirmed? (AU 332.04)	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
Property, Plant, and Equipment Consider these issues: • Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for the following? a. Property, plant, and equipment b. Accumulated depreciation • If samples were used to determine opening balances, were the samples appropriate? • Did the audit team perform tests of completeness, such as by testing from disbursements to property records? • Do the tests appear adequate and were proper conclusions drawn?	____	___	___	___
Liabilities Consider these issues: • Did the audit team perform an adequate search for unrecorded liabilities? • Did the audit team consider expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and whether accrued expenses were reasonably stated?	___	___	___	___

Section II: Key Audit Areas	N/A	Yes	No	W/P
<u>Revenue and Expenses</u> Consider these issues: • Did the audit team compare revenue and expenses for the period to expectations, based on the budget and the results of the preceding period? (AU 329) • Were significant variances and fluctuations from expectations explained? (AU 329) • Did the audit team consider the following? a. The entity's revenue recognition policy b. Unusual transactions • Do tests appear adequate and were proper conclusions drawn?	___	___	___	___
<u>Statement of Budgetary Resources</u> Consider these issues: • Were appropriate procedures applied, such as the following? a. Understanding and testing the budget execution controls b. Tests of the process of preparing the statement c. Tests of undelivered orders d. Review of reconciliation to the President's Budget	___	___	___	___

Section III: Consultation	N/A	Yes	No	W/P
1. Where warranted by the complexity or unusual nature of an issue (for example, issues where the FAM requires consultation, issues not discussed in FAM or professional standards, going concern, economic dependency, issues arising after report issuance), was there appropriate consultation with specialists, including the following?				
• The Reviewer (FAM Appendix A)	___	___	___	___
• The Statistician (FAM Appendix A)	___	___	___	___
• The Office of General Counsel (FAM Appendix A)	___	___	___	___
• The Technical Accounting and Auditing Expert? (FAM 100.25)	___	___	___	___
2. Were significant consultations appropriately documented? (FAM 100.24)	___	___	___	___
3. Were the persons consulted made aware of all relevant facts and circumstances?	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
1. Does the auditor's report include the following?				
a. Introduction	___	___	___	___
b. Significant matters (if applicable)	___	___	___	___
c. Conclusions on:				
i. Financial statements	___	___	___	___
ii. Internal control	___	___	___	___
iii. Whether the entity's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA)	___	___	___	___
iv. Compliance with laws and regulations	___	___	___	___
v. Consistency of other information with financial statements	___	___	___	___
d. Objectives, scope, and methodology, including description of all instances where GAGAS and OMB audit guidance were not followed	___	___	___	___
e. Agency comments (FAM 580.04, 580.81)	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
2. Is the auditor's report appropriate as to the following?				
a. Wording	___	___	___	___
b. Scope of work	___	___	___	___
c. Generally accepted accounting principles	___	___	___	___
d. Explanatory paragraphs	___	___	___	___
e. Opinion on financial statements	___	___	___	___
f. Conclusions on internal control	___	___	___	___
g. Conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA	___	___	___	___
h. Reporting on compliance with laws and regulations (FAM 580)	___	___	___	___
3. Is background material (purpose, authority, and functions of programs/activities) limited to what is necessary?	___	___	___	___
4. Is the auditor's report dated in conformity with professional standards? (AU 530) (FAM 1601)	___	___	___	___
5. Does the auditor's report cover all periods for which financial statements are presented? (AU 508.65)	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
6. If the financial statements of a prior period are presented and have been audited by a predecessor auditor whose report is not presented, does the auditor's report refer to the predecessor auditor's report? (AU 508.74)	___	___	___	___
7. Does the auditor's report describe the responsibility the auditor is taking for supplementary information, including stewardship information? (AU 551; FAM 580.79)	___	___	___	___
8. a. When illegal acts involve funds received from other governmental entities, did the audit team satisfy itself that the audited entity notified the proper officials of those entities within a reasonable time?	___	___	___	___
b. If the entity did not, or was unable to do so because the top official was involved, did the audit team report these acts to the officials of those other governmental entities? (GAGAS, par. 5.23)	___	___	___	___
9. Does the auditor's report include the following?				
a. Identification of which matters are reportable conditions and which of the reportable conditions are material weaknesses (GAGAS, par. 5.27)	___	___	___	___
b. Reference to a separate letter, if applicable, describing nonreportable conditions (GAGAS, par. 5.28)	___	___	___	___
c. Presentation of fraud, illegal acts, and reportable noncompliance with laws and regulations (GAGAS, par. 5.18)	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
10. When appropriate, did the audit team issue a separate report on fraud, abuse, or illegal acts or indications of such acts? (GAGAS, par 5.21)	___	___	___	___
11. Did the report disclose the status of all known, but uncorrected, significant or material findings and recommendations from prior audits that affect current audit objectives? (GAGAS par. 4.10)	___	___	___	___
12. Do the workpapers document a reasonable basis for the following?				
a. The opinion about whether the financial statements and disclosures comply in all material respects with generally accepted accounting principles (FAM 560)	___	___	___	___
b. The conclusions on internal control	___	___	___	___
c. The conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA	___	___	___	___
d. The conclusions about compliance with laws and regulations	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
13. Do the workpapers document a reasonable basis for reported findings, including the following? (FAM 590.05-06)				
a. Internal control weaknesses	___	___	___	___
b. Instances of the entity's financial management systems lack of substantial compliance with the requirements of FFMIA	___	___	___	___
c. Instances of noncompliance with laws and regulations	___	___	___	___
14. Do the findings include (where appropriate) the following?				
a. Condition (describe the existing situation)	___	___	___	___
b. Criteria (state what we are comparing to)	___	___	___	___
c. Cause (reflect reason or reasons why the condition and criteria differ)	___	___	___	___
d. Effect (describe the result of the difference between the condition and criteria)	___	___	___	___
15. Are recommendations and suggestions reasonable, doable, and cost-effective?	___	___	___	___

Section IV: Report	N/A	Yes	No	W/P
16. Does the presentation of agency comments include the following?				
a. Type of comments obtained (oral, written)	___	___	___	___
b. Title of the most senior official(s) involved	___	___	___	___
c. Accurate characterization of general agreement or disagreement with the report	___	___	___	___
d. Description of the substance of the comments	___	___	___	___
e. Resolution of all substantive comments	___	___	___	___

Section V: GAO's Report Considerations	Yes
1. Overall, does the report have the following characteristics?	
a. Professional (the work reflects an understanding of the issues, an awareness of the external environment, including sensitivity to relevant trends, and a practical approach to what can be done to deal with the problems noted)	_______
b. Accurate (presents information or findings accurately; contains no notable errors in logic or reasoning)	_______
c. Objective (presentation is fair and impartial; tone is constructive and objective)	_______
d. Fact-based (states information and findings completely, includes all necessary facts and/or explanations, distinguishes between fact and unproven or uncorroborated material, resolves conflicting evidence)	_______
e. Balanced (presents sound and logical evidence to support conclusions, does not use adjectives or adverbs to characterize evidence in a way that implies criticism or conclusions by innuendo, appropriately recognizes positive aspects of the programs or issues reviewed)	_______
f. Timely and useful (provides relevant and timely information)	_______
g. Clear and concise (presentation is clear, concise, and well organized; message is presented logically; writing style is adapted to the audience)	_______

Section VI: GAO's Quality Control	N/A	Yes	No	W/P
1. Was the report reviewed by the following?				
a. Audit Director	___	___	___	___
b. Office of the General Counsel	___	___	___	___
c. Chief Accountant	___	___	___	___
d. Second Partner	___	___	___	___
2. Did the audit director review the following? (FAM 1301.17)				
a. General risk analysis or equivalent	___	___	___	___
b. Account risk analyses or equivalent for material areas with high combined risk	___	___	___	___
c. Memoranda on key accounting and auditing issues	___	___	___	___
d. Summary memoranda for material areas with high or moderate combined risk	___	___	___	___
e. Management representation letter	___	___	___	___
f. Legal representation letter	___	___	___	___
g. Summary of unadjusted misstatements	___	___	___	___
h. Audit summary memorandum	___	___	___	___
i. Exit conference memorandum	___	___	___	___
j. Financial statements	___	___	___	___
k. GAO workpaper set (FAM 1301.17)	___	___	___	___

Section VI: GAO's Quality Control	N/A	Yes	No	W/P
3. Did the assistant director review the following? (FAM 1301.17)				
a. Entity profile or equivalent	___	___	___	___
b. General risk analysis or equivalent	___	___	___	___
c. Account risk analyses or equivalent	___	___	___	___
d. Initial audit programs	___	___	___	___
e. Lead schedules	___	___	___	___
f. Completed audit programs	___	___	___	___
g. Memoranda on key accounting and auditing issues	___	___	___	___
h. Summary memoranda	___	___	___	___
i. Checklist for reports prepared under the CFO Act (for statements using GAAP promulgated by FASAB)	___	___	___	___
j. Financial reporting and disclosure checklist (for statements using GAAP promulgated by FASB)	___	___	___	___
k. Management representation letter	___	___	___	___
l. Legal representation letter	___	___	___	___
m. Summary of unadjusted misstatements	___	___	___	___
n. Exit conference memorandum	___	___	___	___
o. Audit summary memorandum	___	___	___	___
(continued on next page)				

Section VI: GAO's Quality Control	N/A	Yes	No	W/P
3. (continued)				
p. Financial statements	___	___	___	___
q. GAO workpaper set (FAM 1301.17)	___	___	___	___
4. Did the assistant director or audit manager determine that all significant review notes were resolved appropriately? (FAM 1301.24)	___	___	___	___
5. Did an assistant director initial all workpaper bundle covers to indicate that all workpapers were sufficiently reviewed? (FAM 1301.05)	___	___	___	___
6. Were review notes, superseded versions of workpapers, and draft reports (except the referenced draft and the draft sent to the agency for comment), including review notes and superseded versions in electronic form, placed in a separate folder to be retained until the report is issued (unless the audit director decides to retain them until the next audit)? (FAM 1301.24)	___	___	___	___
7. Were review responsibilities communicated to all individuals on the assignment? (FAM 1301.19)	___	___	___	___
8. Were workpapers prepared by an information systems auditor reviewed by an information systems auditor for technical content and by a member of the audit team to determine that related audit objectives were achieved? (FAM 1301.20)	___	___	___	___

Section VI: GAO's Quality Control	N/A	Yes	No	W/P
9. For areas that are both material and have high combined risk, did the audit director or assistant director perform secondary reviews of the workpapers? (FAM 1301.12)	___	___	___	___
10. Were all workpapers prepared by the audit director or assistant directors read by audit managers or auditors in charge to determine their consistency with any related workpapers? (FAM 1301.15)	___	___	___	___
11. If the workpapers indicated a difference of opinion between engagement personnel or between engagement personnel and a specialist or other person consulted, was the difference resolved appropriately and was the basis of the resolution documented? (FAM 1302)	___	___	___	___

Section VII: Explanation of "NO" Answers and Other Comments

The following pages are provided for comments on all "no" answers or to expand upon any of the "yes" answers.

Page no.	Question no.	Explanatory comments	Disposition of comments

Section VIII: Conclusions: Based on your review and knowledge, do you believe the following?	Yes	No*
1. The audit team performed the engagement, in all material respects, in accordance with generally accepted government auditing standards (which include generally accepted auditing standards) and applicable OMB guidance or the auditor's report was appropriately modified	___	___
2. The financial statements conformed, in all material respects, with generally accepted accounting principles or the auditor's report was appropriately modified	___	___
3. The auditor's report was appropriate in the circumstances	___	___
4. The documentation on this engagement supports:		
The auditor's opinion on the financial statements	___	___
The auditor's conclusions on internal control	___	___
The auditor's conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA	___	___
The auditor's conclusions on compliance with laws and regulations	___	___
5. The audit team complied, in all material respects, with the audit organization's policies and procedures	___	___

* If any of the above 5 statements have "no" responses, please describe the response in a memorandum to the Reviewer.

Date of completion of fieldwork ___________________________

Audit Manager ____ Date _______

Assistant Director ____ Date _______

Audit Director ____ Date _______

Section IX: Second Partner's Concurrence

Objective of second partner review: To objectively review significant auditing, accounting, and reporting matters and to conclude, based on all facts the second partner has knowledge of, that, except as discussed in the report, no matters were found that caused the second partner to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in accordance with generally accepted accounting principles, and (3) the report does not meet professional standards and GAO's policies and core values.

Procedures: Before the report was issued, I performed the following procedures.

- Discussed significant auditing, accounting, and reporting issues with the Audit Director,
- Discussed the audit team's identification of high-risk balances and transactions and the audit of those balances and transactions,
- Reviewed documentation on the resolution of significant auditing, accounting, and reporting issues, including documentation of consultation with specialists such as the Chief Accountant, Statistician and IS professionals,
- Reviewed the summary of unadjusted misstatements,
- Read the financial statements and audit report,
- Confirmed with the Audit Director that there are no unresolved issues.

Conclusion:

Based on all the relevant facts of which I have knowledge, I found no matters, except as discussed in the report, that cause me to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in accordance with generally accepted accounting principles, and (3) the report is not in accordance with professional standards and GAO's policies and core values.

____

Second Partner Name and Title   Signature   Date

Section X: Chief Accountant's Concurrence
When the Chief Accountant is not the second partner, the Chief Accountant should read the report. The Chief Accountant should then sign the conclusion below. Conclusion: Based on my reading of the report, I found no matters, except as discussed in the report, that cause me to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in accordance with generally accepted accounting principles, and (3) the report is not in accordance with professional standards and GAO policies and core values. ____ Chief Accountant's Signature Date

Reporting

1004 - Financial Reporting: Checklist for Reports Prepared Under the CFO Act

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Contents

Abbreviations

AcSEC	Accounting Standards Executive Committee
AICPA	American Institute of Certified Public Accountants
CFO Act	Chief Financial Officers Act of 1990
COTS	commercial-off-the-shelf software
CSRS	Civil Service Retirement System
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Act
FIFO	first-in, first-out
FY	fiscal year
GAAP	generally accepted accounting principles
GDP	gross domestic product
GPRA	Government Performance and Results Act of 1993
HI	Hospital Insurance (Medicare Part A)
IMF	International Monetary Fund
Imple. Guide	Implementation Guide
IRS	Internal Revenue Service
LIFO	last-in, first-out
MD&A	Management Discussion and Analysis
MRS	Military Retirement System
NRV	net realizable value
OASDI	Old Age, Survivors, and Disability Insurance (Social Security)
OMB	Office of Management and Budget
OMB Bull.	OMB Bulletin
OPEB	Other Postemployment Benefits
ORB	Other Retirement Benefits
PP&E	property, plant, and equipment
RRB	Railroad Retirement Benefits
RSSI	Required Supplementary Stewardship Information
SFAS	Statement of Financial Accounting Standards
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards
SGL	U.S. Government Standard General Ledger
SMI	Supplementary Hospital Insurance (Medicare Part B)
SOP	Statement of Position
UI	unemployment insurance
UTF	Unemployment Trust Fund

Section I Overview

Introduction

The Chief Financial Officers Act of 1990 and the Government Management and Reform Act of 1994 require, among other mandates, that agencies' chief financial officers submit annual reports to their agency heads and to the Office of Management and Budget (OMB). These annual reports should contain audited financial statements of their agencies. The financial statements are to be presented in accordance with the Federal Accounting Standards Advisory Board's (FASAB) approved statements and OMB Bulletin 97-01, *Form and Content of Financial Statements*, as revised.

The checklist has been issued to assist agencies in preparing these statements and auditors in auditing them. Use of this checklist is not a requirement. Rather, it is intended to help provide for a systematic, organized, and structured approach to preparing or reviewing agency financial statements. Furthermore, it must be noted that, while the questions contained in the checklist are taken from authoritative sources, the checklist itself is not authoritative, nor is it a comprehensive guide. Preparers and auditors should also consult financial management regulations for the individual agencies, as the regulations may have specific guidance when the standards allow alternatives or management flexibility.

Checklist Organization

The checklist has 10 sections: an overview section; a section related to general items in the financial statements; a section for each of the six financial statements; and two additional sections. The six sections reflecting the financial statements are organized by the line items in financial statements to allow the user to proceed through each statement from the beginning to the end. The final two sections cover disclosures in the footnotes related to significant accounting policies and required supplementary information.

Since the financial statements are interrelated, some questions concerning line items in one financial statement may also pertain to line items in another statement. For example, the questions covering loans receivable in the balance sheet section may also include questions on the related interest income and subsidy expense appearing in the statements of financing and net cost. The questions on related line items appearing in more than one statement are covered only in the first statement in which the line item appears. In the preceding example, questions concerning interest income and subsidy expense would appear only in the balance sheet. Further, questions related to footnote disclosure would also appear only under the line item of the initial financial statement and would not be duplicated in the related financial statement except for the section on notes to the financial statements about significant accounting policies.

Except for sections I, II, VI, and IX, the first page of each section contains a list showing the number of questions in the section. This checklist has 715 questions as follows.

General Items Related to the Financial Statements	28
Balance Sheet	322
Statement of Net Cost	182
Statement of Changes in Net Position	37
Statement of Budgetary Resources	5
Statement of Financing	10
Statement of Custodial Activity	26
Notes to Financial Statements (Significant Accounting Policies)	4
Supplementary Information	101

Authoritative Guidance

Each question in this guide is referenced to a source. The sources cited are (1) the *Statements of Federal Financial Accounting Standards* (SFFAS) and (2) OMB Bulletin 97-01, *Form and Content of Financial Statements* (including the 1998 and 2000 revisions).

FASAB-recommended statements approved by the principals include Statements of Federal Financial Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS). The three approved accounting concept statements are #1 *Objectives of Federal Financial Reporting*, 1993, #2 *Entity and Display*, 1995, and #3 *Management's Discussion and Analysis – Concepts*, 1999. The nineteen SFFAS standards are:

1. *Accounting for Selected Assets and Liabilities*, 1993.
2. *Accounting for Direct Loans and Loan Guarantees*, 1993.
3. *Accounting for Inventory and Related Property*, 1994.
4. *Managerial Cost Accounting Concepts and Standards*, 1995.
5. *Accounting for Liabilities of the Federal Government*, 1997.
6. *Accounting for Property, Plant, and Equipment*, 1995.
7. *Accounting for Revenue and Other Financing Sources*, 1996.
8. *Supplementary Stewardship Reporting*, 1996.
9. *Deferral of the Effective Date of Managerial Cost Accounting Standards for the Federal Government in SFFAS No. 4*, 1998.
10. *Accounting for Internal Use Software*, 1998.
11. *Amendments to Accounting for Property, Plant, and Equipment - Definitional Changes*, 1998 - Amending SFFAS No. 6 and SFFAS No 8: *Accounting for Property Plant and Equipment* and *Supplementary Stewardship Reporting*.
12. *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5*, 1998 – *Accounting for Liabilities of the Federal Government.*
13. *Deferral of Paragraph 65.2 – Material Revenue-Related Transactions Disclosures*, 1998 – Amending SFFAS No. 7, *Accounting for Revenue and Other Financing Sources.*

14. *Amendments to Deferred Maintenance Reporting*, 1999 – Amending SFFAS No. 6, *Accounting for Property, Plant, and Equipment* and SFFAS No. 8, *Supplementary Stewardship Reporting.*
15. *Management's Discussion and Analysis*, 1999.
16. *Amendments to Accounting for Property, Plant, and Equipment – Measurement and Reporting for Multi-Use Heritage Assets*, 1999 – Amending SFFAS No. 6 and SFFAS No. 8, *Accounting for Property, Plant, and Equipment* and *Supplementary Stewardship Reporting.*
17. *Accounting for Social Insurance*, 1999.
18. *Amendments to Accounting Standards For Direct Loans and Loans Guarantees*, 2000.
19. *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees In Statement of Federal Financial Accounting Standards No.2, 2001.*

OMB Bulletin 97-01 as amended (Jan. 7, 2000) as well as the attachment to OMB Memo M-00-05, OMB Bulletin 97-01 *Technical Amendments* as amended January 7, 2000, provide the detailed requirements for the form and content of financial statements.

How to Use This Guide

To the right of each question are two columns. The first column provides for a "yes," "no," or "NA" answer to each question. The third column provides for an explanation for the answer checked in one of the first three columns. A "yes" answer should indicate that the financial statements contain the information asked by the question. For each "yes" answer, the explanation column should include the page number or location in the financial statements where the information can be found. Also, other materials, such as accounting records, studies or working papers, or other documents, should be referenced or listed in the column where appropriate.

A "no" answer indicates that the information asked in the question is not included in the financial statements. The fourth column should provide an explanation. Examples of explanations for a "no" answer might include: (1) the federal entity is working to have the information available for the statements in subsequent years, (2) management believes that the information does not enhance the usefulness of the statements, (3) the cost of compiling the information exceeds the benefit of providing it, and (4) the items are not material. However, it must be noted that explanations 1 - 3 do not necessarily imply that the information is not needed for fair presentation and compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996; only explanation 4 implies this. Also, support, such as a cost-benefit analysis, should be referenced or listed in the column, where appropriate.

An "N/A" answer might indicate that the question does not apply to the federal entity. For example, most federal agencies do not administer loan, loan guarantee, or loan insurance programs and, therefore, do not have credit program receivables and related property.

Consequently, the questions on these receivables, property, and subsidies would not apply. A simple explanation indicating that the reporting entity does not administer loan programs would appear in the explanation column of the first question in the series.

Section II General Items Related to the Financial Statements

There are 28 questions in this section. All the questions relate to the overall financial statements and are not further divided into categories.

General Items (1 – 28)	Yes, No, or N/A	Explanation
1. Does the entity's annual financial statement consist of the following items? a. management's discussion and analysis (MD&A) of the reporting entity b. financial statements and related notes c. required supplementary stewardship information d. required supplementary information e. other accompanying information that in management's judgment provides users with relevant information (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 4 & 5)		
2. Do the principal statements and notes include the following six statements? a. Balance Sheet b. Statement of Net Cost c. Statement of Changes in Net Position d. Statement of Budgetary Resources e. Statement of Financing f. Statement of Custodial Activity (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 5)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
3. Does the entity use the following hierarchy as its sources of guidance in preparing its financial statements? a. Statements and interpretations of the Federal Financial Accounting Standards Advisory Board (FASAB) as well as applicable AICPA and FASB pronouncements b. FASAB technical bulletins and, if specifically made applicable to federal government entities by FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position c. AICPA AcSEC Practice Bulletins if specifically made applicable to federal government entities and cleared by FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of FASAB d. accounting principles published by other authoritative standard-setting bodies i. in the absence of other guidance in the first three parts of this hierarchy, and ii. if the use of such accounting principles improves the meaningfulness of the financial statements (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 7; Statement on Auditing Standards (SAS) No. 91 – *Federal Generally Accepted Accounting Principles (GAAP) Hierarchy*		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
4. Do the descriptions and displays meet the authoritative standard that governs the nature and purpose of the statements, the recognition and measurement of items in the statements, and the required disclosures? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p.10, item 2)		
5. When presenting dollar amounts in the statements and the notes, does the entity do the following? a. round dollar amounts to the nearest whole dollar, thousand, or million based on informative value to the reporting entity b. maintain the chosen rounding level throughout the financial statements and footnotes c. adjust the individual line items for differences created by rounding so that totals equal the sum of the addends in a column (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 5)		
6. Does the entity present comparative financial statements with full footnote disclosure? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 3)		
7. Are immaterial but related line items combined? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 6)		
8. Are the statement line items, footnotes, and lines or columns that are not informative for the reporting entity excluded? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 7)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
9. Are material balances excluded from the "other" category and separately reported and designated by name? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 8)		
10. Are footnotes sequentially numbered? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 10, item 10)		
11. Do total amounts presented in the footnotes tie to the amounts presented in the body of the financial statements? (OMB Bull. 97-01, p. 10, item 10)		
Financial statements may be aggregated or disaggregated in different ways depending upon the nature of the statements. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		
12. When agencies present disaggregated information for component organizations, does the total column for the entity as a whole reflect consolidated totals net of intra-entity transactions? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		
When a reporting entity presents its financial statements in a single column format, the statements are referred to as consolidating statements. Financial statements that use a multicolumn format to present information on an entity's major components or lines of business as well as the consolidated amounts are referred to as consolidating statements. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
13. Are intra-entity transactions needed to arrive at the consolidated amounts presented in a column on the face of the consolidating statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		
14. Does the reporting entity include franchise funds and other intragovernmental support revolving funds among the activities covered by its financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		
15. If information about the assets, liabilities, costs, and revenues of these franchise funds and intragovernmental support revolving funds is not separately disclosed in the entity's financial statements, is this information reported as required supplementary information? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 11, item 11)		
The Department of the Treasury will issue separate guidance providing a crosswalk from the accounts or the Standard General Ledger (SGL) to required financial statements (OMB Bulletin 97-01 as amended (Jan. 7, 2000), p. 11, item 13)		
16. If the entity it not yet using the accounts and data elements of the SGL, are the ledger accounts and data elements used crosswalked to those of the SGL? (OMB Bulletin 97-01 as amended (Jan. 7, 2000), p. 11, item 13)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
17. Does the MD&A provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 12)		
18. Does the MD&A, at a minimum, contain sections that address the following items concerning the entity? a. mission and organizational structure b. performance goals, objectives, and results c. financial statements d. systems controls and legal compliance e. forward-looking information, either as a separate section of MD&A or incorporated with the sections listed above f. important problems that need to be addressed and action taken or planned, either as a separate section of the MD&A or incorporated with the sections listed above (SFFAS 15, par. 2 - 4; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 12)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
19. Does the entity's mission statement have the following attributes? a. a clear articulation of what the entity's major programs and activities are intended to accomplish b. consistency with the entity's strategic plan? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 12)		
20. Are the entity's programs and financial results expressed in terms of objective and relevant measures that disclose the extent to which its programs are achieving their intended objectives? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 12)		
21. Has the entity attempted to develop and report objective measures that provide information about the cost effectiveness of programs? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 13)		
22. Are the reported measures of program and financial performance consistent with the agency's strategic plan? (OMB Bull. 97-01, p. 12)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
23. Do the entity's performance measures meet the following criteria? a. clearly set forth b. objective and quantifiable c. meaningful and relevant d. related to measures developed in the entity's strategic planning processes e. capable of presenting the outputs and outcomes of the programs, not just inputs or processes (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 13)		
24. Does the entity's presentation of its performance measures include the following? a. both positive and negative results b. presentation of future and historical trends, if possible c. use of charts and graphs, whenever possible, for easy identification of trends d. explanation of the significance of trends e. comparisons of actual results to goals or benchmarks f. variations from goals and trends g. other explanatory information that helps readers understand the significance of the measures, results, and any variations from goals or plans (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 13)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
25. Does the entity explain what needs to be done and what is planned to improve financial or program performance? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 14)		
26. Do the performance measures presented in the MD&A include the following criteria? a. related to program purposes and goals b. consistent with measures previously included in budget documents and other materials related to implementation of the Government Performance and Results Act (GPRA) c. linked to the programs presented in the Statement of Net Cost d. limited to the entity's most significant program and financial measures (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 14)		

Section II General Items Related to the Financial Statements

General Items (1 – 28)	Yes, No, or N/A	Explanation
27. Are the less significant program and financial measures presented as "other accompanying information?" (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 14)		
28. Does the entity note the following in the section on limitations of the “Financial Statements?” a. the financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b) b. while the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records c. the statements should be read with the realization that they are for a component of the U.S. government[1] (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 14)		

[1] One implication of this is that liabilities cannot be liquidated without enabling legislation.

Section III Balance Sheet

The questions related to the balance sheet are contained under 23 line items. The question numbers related to each line item follow.

	Question numbers
General items	1 - 4
Assets	
1. Fund Balance with Treasury	5 - 17
2. Investments	18 - 26
3. Accounts Receivable (Net)	27 - 47
4. Interest Receivable (Net)	48 - 51
5. Credit Program Receivables	52 - 92
6. Cash and Other Monetary Assets	93 - 95
7. Inventory and Related Property	96 - 112
8. Operating Materials and Supplies	113 - 120
9. Stockpile Materials	121 - 131
10. Seized Property	132 - 141
11. Forfeited Property	142 - 149
12. Goods Held Under Price Support and Stabilization Programs	150 - 163
13. General Property, Plant, and Equipment (Net)	164 - 195
14. Software	196 - 226
15. Other Assets	227 - 238
Liabilities	
16. Liabilities in General	239 - 240
17. Interest Payable	241 - 248
18. Liabilities for Loan Guarantees	249 - 262
19. Lease Liabilities	263 - 266
20. Federal Debt and Related Interest	267 - 278
21. Pensions, Other Retirement Benefits, and Postemployment Benefits	279 - 287
22. Other Liabilities	288 - 318
Net Position	
23. Unexpended Appropriations and Cumulative Results of Operations	319 - 322

Section III Balance Sheet

General Items (1 - 4)	Yes, No, or N/A	Explanation
The Balance Sheet presents, as of a specific time, amounts of future economic benefits (assets) owned or managed by the reporting entity exclusive of items subject to stewardship reporting, amounts owed by the entity (liabilities), and amounts that comprise the difference (net position). (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 17)		
1. Does the Balance Sheet display assets, liabilities, and net position? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 15 & 16)		
Entity assets are assets that the reporting entity has authority to use in its operations. Nonentity assets are assets that are held by an entity but are not available to the entity as, for example, income tax receivables. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 17)		
2. Are entity assets separately reported from nonentity assets? (OMB Bull. 97-10 as amended (Jan. 7, 2000), pp. 15 & 17)		
Intragovernmental assets are claims of a federal entity against other federal entities; conversely, intragovernmental liabilities are claims against the entity by other federal entities. (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 17 & 22)		
3. Are intragovernmental assets and liabilities reported separately from governmental assets and liabilities that arise from transactions of the federal government or a federal government entity with nonfederal entities, the federal reserve, and government-sponsored enterprises? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 15, 17, & 22)		

Section III Balance Sheet

General Items (1 - 4)	Yes, No, or N/A	Explanation
Liabilities covered by budgetary resources are liabilities covered by realized budgetary resources as of the balance sheet date. Budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections credited to an appropriation or fund account, (3) recoveries of unexpired budget authority through downward adjustment or prior year obligations (4) unobligated balances of budgetary resources of the beginning of the year or net transfers or prior-year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date and may be apportioned by OMB without further congressional action or a contingency having to be met. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)		
4. Are liabilities covered by budgetary resources separately reported from liabilities not covered by budgetary resources? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)		

Section III Balance Sheet

Assets **Fund Balance with Treasury (5 - 17)**	**Yes, No, or N/A**	**Explanation**
A federal entity's fund balance with the Treasury is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. From the reporting entity's perspective, a fund balance with Treasury is an asset. From the perspective of the federal government as a whole, the fund balance is neither an asset nor a liability. It instead represents a commitment to make resources available to federal or other entities. (SFFAS 1, par. 31)		
5. Is the fund balance with Treasury reported as an intragovernmental asset? (SFFAS 1, par. 31; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 15)		
6. Are amounts disclosed as fund balances in deposit, suspense, and clearing accounts that are not available to finance entity activities reported as nonentity assets? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		
7. Is foreign currency translated into U.S. dollars at exchange rates determined by the Treasury at the financial reporting date? (SFFAS 1, par. 32; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		

Section III Balance Sheet

Assets **Fund Balance with Treasury (5 - 17)**	**Yes, No, or N/A**	**Explanation**
8. Does the entity's fund balance with Treasury also include the following? a. clearing account balances b. balances for direct loan and loan guarantee activities c. funds actually borrowed from Treasury under statutory authority d. the dollar equivalent of foreign currency account balances (SFFAS 1, par. 32 & 35)		
9. Does the entity's fund balance with Treasury exclude contract authority[1] or unused authority to borrow? (SFFAS 1, par. 34)		
10. Does the entity record an increase in its fund balance with Treasury when it does at least one of the following? a. receives appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations b. receives transfers and reimbursements from other agencies c. borrows from the Treasury, Treasury, Federal Financing Bank, or other entity d. collects and credits amounts to its appropriations or fund accounts that the entity is authorized to spend or use to offset its expenditures (SFFAS 1, par. 33)		

[1] Contract authority is a statutory authority under which contracts or other obligations may be entered into prior to receiving an appropriation for the payment of obligations.

Section III Balance Sheet

Assets **Fund Balance with Treasury (5 - 17)**	**Yes, No, or N/A**	**Explanation**
11. Does the entity record a decrease in its fund balance with Treasury when at least one of the following occurs? a. Treasury makes disbursements to pay liabilities or to purchase assets, goods, and services b. Treasury makes investments in U.S. securities. c. Treasury's expired appropriations are cancelled. d. Treasury makes transfers and reimbursements to other entities or the Treasury. e. Treasury's appropriations are rescinded or sequestered. (SFFAS 1, par. 36)		
12. Are any restrictions related to future uses of fund balances disclosed? (SFFAS 1, par. 38; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 44, item B)		
13. Are discrepancies between fund balances in Treasury's records and general ledger accounts explained and corrected, if necessary? (SFFAS 1, par. 39; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 44, item B)		
14. Are amounts held for special purposes (such as collections pending litigation outcome or held as an agent for others) disclosed as "other fund types?" (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 44, item A)		

Section III Balance Sheet

Assets **Fund Balance with Treasury (5 - 17)**	**Yes, No, or N/A**	**Explanation**
15. Are fund balances representing amounts (1) obligated but not yet disbursed and (2) unobligated: disclosed separately? (SFFAS 1, par. 37 & 38)		
16. Are fund balances disclosed by fund type? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 43 & 44, item A)		
17. Are unexpended appropriations recognized as capital and included under funds with Treasury when they are made available for apportionment? (SFFAS 7, par. 71)		

Section III Balance Sheet

Assets **Investments (18 - 26)**	**Yes, No, or N/A**	**Explanation**
Investments in federal securities include (a) nonmarketable par value Treasury securities, (b) market-based Treasury securities, (c) marketable Treasury securities, and (d) securities issued by other federal entities. Nonfederal securities include those issued by state and local governments, private corporations, and government-sponsored enterprises. (SFFAS 1, par. 62; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		
18. Are investments in federal securities reported separately from investments in nonfederal securities? (SFFAS 1, par. 67; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		
19. Are investments initially recorded and reported at their acquisition or amortized costs? (SFFAS 1, par. 68 & 69; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18 & pp. 46 & 47, note 4)		
20. Are investments acquired in exchange for nonmonetary assets recognized at the fair value of either (whichever is more determinable) the securities acquired or the assets given up? (SFFAS 1, par. 68)		
21. Subsequent to acquisition, are investments reported at their carrying amount adjusted for amortized premium or discount? (SFFAS 1, par. 70 - 71; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18 & pp. 46 & 47, note 4)		
22. Is the interest method (i.e., effective interest rate multiplied by the carrying amount) used in amortizing the premium or discount over the life of the security? (SFFAS 1, par. 71)		

Section III Balance Sheet

Assets **Investments (18 - 26)**	**Yes, No, or N/A**	**Explanation**
23. Is the market value of market-based and marketable securities disclosed? (SFFAS 1, par. 72; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 46 & 47, note 4)		
24. Are investments grouped by type of security, such as marketable or market-based Treasury securities? (SFFAS 1, par. 72)		
25. Are investment securities, which initially were expected to be held to maturity, reported at market value in the balance sheet if they are for sale and have experienced more than a temporary reduction in value? (SFFAS 1, par. 72 & 73; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 46 & 47, note 4)		
26. Does the entity disclose any other information relative to understanding the nature of reported investments, such as permanent impairments? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 47)		

Section III Balance Sheet

Assets **Accounts Receivable (Net) (27 - 47)**	**Yes, No, or N/A**	**Explanation**
Entity receivables are amounts due from other federal or nonfederal entities. Nonentity receivables are amounts that the entity is to collect on behalf of the federal government or other entities. Not included in this category are receivables related to direct or guaranteed loans, which are reported separately. (SFFAS 1, par. 43; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 47, note 5)		
27. Is a receivable recognized when a federal entity establishes a claim based on legal provisions or when goods or services are provided? (SFFAS 1, par. 41)		
28. If the exact amount of a receivable is unknown, is a reasonable estimate made? (SFFAS 1, par. 41)		
29. Are entity and nonentity accounts receivable reported separately? (SFFAS 1, par. 43; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 15 & p. 47, note 5)		
30. If cash has not been received at the time revenue is recognized, is a receivable recorded and allowance for bad debts, if needed, established? (SFFAS 7, par. 39 & 129 – 131)		
31. Is an account receivable arising from a nonexchange transaction recognized when a collecting entity establishes a specifically identifiable, measurable, and legally enforceable claim to cash or other assets? (SFFAS 7, par. 53, 61 & 62 & footnote 9; SFFAS 1, par. 41)		

Section III Balance Sheet

Assets **Accounts Receivable (Net) (27 - 47)**	**Yes, No, or N/A**	**Explanation**
32. Is a receivable associated with nonexchange revenue for taxes and duties recognized upon completion of the entity's established assessment process? (SFFAS 7, par. 53)		
33. Is an interentity receivable recognized when (1) a legally enforceable claim exists between a collecting entity and a recipient entity for the transfer or repayment of taxes or duties and (2) payment of such a claim is probable and measurable (SFFAS 7, par. 60)		
34. Are assessments recognized as accounts receivable if an enforceable claim for taxes and duties exists in the following instances? a. tax returns filed by the taxpayer b. customs documents filed by the importer c. taxpayer agreements to assessments at the conclusion of an audit or as a substitute for a tax return (or importer agreements to supplemental assessments) d. court actions determining an assessment e. taxpayer (or importer) agreements to pay an assessment on an installment plan f. receivables determined to be currently not collectable but with future collection potential (SFFAS 7, par. 53, 54, 170, & 171)		

Section III Balance Sheet

Assets **Accounts Receivable (Net) (27 - 47)**	**Yes, No, or N/A**	**Explanation**
Compliance assessments are proposed assessments by the collecting entity in definitive amounts, but with which the taxpayer (or importer) still has the right to disagree or object. (SFFAS 7, par. 55.1) *Preassessment works-in-process are assessments not yet officially asserted by the collecting entity that are subject to a taxpayer's right to conference in response to initial information notices. (SFFAS 7, par. 55.2)*		
35. Do nonexchange-related accounts receivable for taxes and duties exclude the following? a. amounts received or due with tax returns received after the close of the reporting period b. compliance assessments c. preassessment work-in-process amounts (SFFAS 7, par. 54)		
36. Are compliance assessments reclassified and recognized as an account receivable in the following instances? a. the taxpayer files an amended tax return b. a protest or retention period lapses c. a court action settles the matter in the government's favor d. the taxpayer (or importer) agrees to pay or e. a compromise payment plan is accepted (SFFAS 7, par. 55.1 & 178 – 180)		
37. Is an allowance for uncollectible amounts based on an analysis of both individual accounts receivable and groups of accounts receivable as prescribed by SFFAS No. 1? (SFFAS 1, par. 44 – 51; SFFAS 7, par. 56)		

Section III Balance Sheet

Assets **Accounts Receivable (Net) (27 - 47)**	**Yes, No, or N/A**	**Explanation**
38. Is this allowance for estimated uncollectable accounts receivables periodically adjusted to reflect the latest information? (SFFAS 1, par. 45)		
39. Are amounts for preassessment work in progress excluded from accounts receivable? (SFFAS 7, par. 55.B)		
40. Are intragovernmental[2] accounts receivable reported separately from receivables from nonfederal entities? (SFFAS 1, par. 42; OMB Bull. 97-01as amended (Jan. 7, 2000), p. 15)		
41. Are losses due to uncollectable amounts measured through a systematic methodology, which is based on an analysis of both individual accounts and a group of accounts as a whole? (SFFAS 7, par. 46)		
42. Are accounts that represent significant amounts individually analyzed to determine the loss allowance? (SFFAS 1, par. 47)		
43. Is the loss estimation for individual accounts based on the following? a. the debtor's ability to pay b. the debtor's payment record and willingness to pay c. the probable recovery of amounts from secondary sources including liens, garnishments, cross collections, and other applicable collection tools (SFFAS 1, par. 47)		

[2] Intragovernmental receivables are amounts due from other federal entities. (SFFAS 1, par. 42)

Section III Balance Sheet

Assets **Accounts Receivable (Net) (27 - 47)**	**Yes, No, or N/A**	**Explanation**
44. If information is not available or if the nature of the receivables does not lend itself to individual account analysis, are the potential losses assessed on a group basis? (SFFAS 1, par. 48)		
45. If potential losses are assessed on a group basis, are the receivables separated into groups of homogeneous accounts with similar risk characteristics? (SFFAS 1, par. 49 - 51)		
46. Does the reporting entity disclose the following? a. the major categories of account receivables by amount and type b. the methodology used to estimate the allowance for uncollectible amounts c. the dollar amount of the allowance for uncollectable accounts (SFFAS 1, par. 52; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18 & p. 47, note 5)		
47. Are losses on receivables recognized when it is more likely than not that the receivables will not be totally collected (i.e., there is a greater than 50 percent chance of loss)? (SFFAS 1, par. 44)		

Section III Balance Sheet

Assets **Interest Receivable (Net) (48 – 51)**	**Yes, No, or N/A**	**Explanation**
48. Is interest earned but not received recognized as interest receivable and reported as interest receivable? (SFFAS 1, par. 53; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		
49. Does interest receivable exclude interest on accounts receivable and investments determined to be uncollectible? (SFFAS 1, par. 54; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 18)		
50. Is interest accrued on uncollectible amounts receivable disclosed until: (1) the interest payment requirement has been officially waived or (2) the related debt has been written off? (SFFAS 1, par. 55)		
51. Is interest receivable from federal entities reported separately from interest receivable from nonfederal entities? (SFFAS 1, par. 56)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
The Federal Credit Reform Act of 1990 divides loans and loan guarantees into two groups: pre-1992 and post-1991. Pre-1992 refers to direct loan obligations or loan guarantee commitments made prior to fiscal year 1992; post-1991 refers to direct loan obligations or loan guarantee commitments made after fiscal year 1991. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 55)		
52. Is interest receivable related to pre-1992 and post-1991 direct loans and are acquired defaulted guaranteed loans reported as a component of credit program receivables and related foreclosed property? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p 18)		
53. Are loan amounts broken out by group (pre-1992 and post-1991) and loan program and disclosed in a note to the financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 49 & 50)		
54. Are credit program receivables considered an entity asset if at least one of the following criteria is met? a. The entity has the authority to either determine the use of the funds collected. b. The entity is legally obligated to use the funds to meet entity obligations (e.g., loans to Treasury). (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
55. If a loan guarantee program is generating a negative subsidy and the lender had not disbursed the loan as of the balance sheet date, does the entity record and include this amount as part of the total undelivered orders? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19 & p. 71, note 15)		
56. Are special receipt accounts for negative subsidies and downward subsidy reestimates included in the credit reporting entity's financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19)		
57. Are any assets in these special receipt accounts shown as nonentity assets offset by intragovernmental liabilities covered by budgetary resources? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19)		
58. Do the notes disclose other relevant and appropriate information related to direct loans and loan guarantees including the following? a. commitments to guarantee b. management's method for accruing interest revenue and recording interest receivable c. management's policy for accruing interest on nonperforming loans (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 58, item K)		
For post-1991 loans and guarantees, a subsidy expense is recognized in the year it is disbursed. For pre-1992 loans and guarantees, a loss and liability need not be recognized until it is more likely than not that a loan (either direct or guaranteed) will go into default. (SFFAS 2, par. 24 & 39)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
59. Are post-1991 direct loans recognized as assets at the present value (discounted at a comparable Treasury rate) of their estimated net cash inflows? (SFFAS 2, par. 22 & app. B, part I A)		
60. Is the difference between the outstanding principal of post-1991 direct loans and the present value of their net cash flows recognized as a subsidy cost allowance? (SFFAS 2, par. 22 & app. B, part I A)		
61. Are the components of the present value of post-1991 direct loans receivable (i.e., principal, interest, estimated net value of foreclosed property, and allowance for subsidy costs) disclosed? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 50 & 56, item C)		
62. When post-1991 guaranteed loans go into default, is the value of the assets related to defaulted guaranteed loans receivable[3] included in the reported credit program receivables? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 51 & 57, item E)		
63. When post-1991 loans are written off, is the unpaid principal removed from unpaid loans receivable and charged against the allowance for subsidy costs? (SFFAS 2, par. 61)		

[3] That is, the sum of (1) defaulted guaranteed loans receivable gross, (2) interest receivable, and (3) foreclosed property, less the allowance for subsidy cost at present value.

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
64. Are the following components of the assets that are related to post-1991 direct and defaulted guaranteed loans receivable disclosed by loan program? a. loans receivable, gross b. interest receivable c. estimated net realizable value of foreclosed property d. allowance for subsidy costs (present value) e. the total value of related assets (i.e., the sum of a - c less d) (OMB Bull. 97-01 as amended (Jan. 7, 2000), items C & E, pp. 50, 51, 56 item C, & 57 item E)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
65. Are losses of pre-1992 direct loans obligated recognized (and a corresponding allowance amount set up) when it is more likely than not that the direct loans will not be totally collected? (SFFAS 2, par. 39 & app. B, part II A)		
66. Are allowances for uncollectible pre-1992 loans reestimated each year? (SFFAS 2, par. 39)		
67. Are the following components of assets related to pre-1992 direct loans receivable disclosed by loan program? a. loans receivable, gross b. interest receivable c. foreclosed property d. present value allowance[4] (if the present value method is used) e. allowance for loan losses[5] (if the allowance method is used) (SFFAS 2, par. 39; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 49 & 56 item B)		

[4] Under the present value method, the nominal amount of the direct loans is reduced by an allowance equal to the difference between the nominal amount and the present value of the expected net cash flows from the loans (OMB Bull 97-01 as amended (Jan. 7, 2000), p. 55, item A, 4th par.)
[5] Under the allowance-for-loss method, the nominal amount of the direct loans is reduced by an allowance for uncollectible amounts. (OMB Bull 97-01 as amended (Jan. 7, 2000), p. 55, item A, 4th par.)

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
68. Are the following components of defaulted guaranteed loans from pre-1992 guarantees disclosed by loan program? a. defaulted guaranteed loans receivable, gross b. interest receivable c. the estimated net value of related foreclosed property d. the present value allowance (if the present value method is used) e. the allowance for loan losses (if the allowance for loss method is used) f. defaulted guaranteed loans receivable, net (i.e., depending on the method used: the sum of a, b, & c less d or a, b, & c less e) (OMB Bull. 97-01 as amended (Jan. 7, 2000), items D1 & D2, pp. 50, 56, & 57)		
A loan modification is a federal government action that directly or indirectly alters the estimated subsidy cost and the present value of outstanding loans or the liability of loan guarantees. A direct modification changes the subsidy cost by altering the terms of existing contracts or through the sale of direct loans. An indirect modification changes the subsidy costs by altering the way loans and loan guarantees are administered. A modification does not include subsidy cost reestimates, routine administrative workouts of troubled loans, and other actions permitted within existing contract terms. (SFFAS 2, par. 41- 44)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
69. When post-1991 loans are modified, is their existing book value changed to an amount equal to the present value (discounted at the Treasury rate in effect when the loans were first disbursed after adjusting for the interest rate re-estimate) of the loans' net cash inflows that are projected under the modified terms from the time of the modification to the loans' maturity? (SFFAS 2, par. 46 & app. B, part I D(4))		
70. When pre-1992 loans are directly modified do they meet the following conditions? a. They are transferred from the liquidating account to a financing account. b. Their book value is recorded at their post-modification value (i.e., the present value of the net cash flows under post-modification terms discounted at the current Treasury rate). (SFFAS 2, par. 47 & app. B, part II B(4))		
71. Are subsequent (direct) modifications of pre-1992 loans treated as a modification of post-1991 loans? (SFFAS 2, par. 47)		
72. When pre-1992 loans are indirectly modified do they meet the following conditions? a. they are kept in a liquidating account b. their bad debt allowance is reassessed and adjusted to reflect amounts that would not be collected due to the modification (SFFAS 2, par. 47)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
73. Does the entity disclose the following by program in the notes to the financial statements? a. the nature of the modification of direct loans or loan guarantees b. the discount rate used in calculating the modification expense c. the basis for recognizing a gain or loss related to the modification (SFFAS 2, par. 56 & OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 54 & 58 item K)		
74. When post-1991 and pre-1992 loans are sold is the sale treated as a direct modification? (SFFAS 2, par. 53)		
75. Does the agency disclose the expectation that proceeds from the sale of its loans will differ from the reported face value of the loans or the value of their related assets? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 55, item A, 5th par.)		
Foreclosed property is any asset, which is assumed to be held for sale, that is received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). Pre-1992 foreclosed property refers to property associated with direct loans obligated or loan guarantees committed before October 1, 1991. Post-1991 foreclosed property refers to property associated with direct loans obligated or loan guarantees committed after September 30, 1991 (SFFAS 3, par. 79 & 80)		
76. Is post-1991 foreclosed property valued at the net present value of the projected future cash flows associated with the property? (SFFAS 3, par. 81)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
77. Is pre-1992 foreclosed property recorded at cost and adjusted to the lower of cost or net realizable value? (SFFAS 3, par. 81)		
78. Is any difference between cost and net realizable value carried in a valuation allowance? (SFFAS 3, par. 81)		
79. In estimating sales proceeds, has the entity considered its historical experience in selling property as well as the nature of the sale? (SFFAS 3, par. 82)		
80. Were the estimated future cash flows of post-1991 foreclosed property (i.e., sales proceeds, rent, holding and selling expenses) or acquired loans discounted at the original (or Treasury) discount rate in effect at the time the underlying loan or guarantee was granted? (SFFAS 2, par. 57, 59; SFFAS 3, par. 82 – 83; SFFAS 19, par. 7(e))		
81. Is the net present value of post-1991 foreclosed property adjusted periodically to recognize both changes in the expected future cash flows and accrual of interest due to the passage of time? (SFFAS 3, par. 84)		
82. Are any adjustments in the carrying amounts of post-1991 foreclosed property included in the presentation of "interest income" and the reestimate of "subsidy expense?" (SFFAS 3, par. 84)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
83. For post-1991 foreclosed property are the following true? a. Third party claims are recorded at their net present value at the time of the foreclosure. b. Any periodic changes in net present value of the claim are reflected in "interest income" and "subsidy expense." (SFFAS 3, par. 87)		
84. Are receipts or disbursements associated with acquiring and holding post-1991 foreclosed property charged or credited to foreclosed property? (SFFAS 3, par. 88)		
85. When the government acquires foreclosed assets in full or partial settlement of post-1991 loans, is the present value of the government's claim against the borrowers reduced by the amount settled as a result of the foreclosure? (SFFAS 2, par. 60)		
86. If a lender, debtor, or other third party has a legitimate claim to a post-1991 foreclosed asset, is the net present value of the estimated claim recognized as a special contra-valuation allowance? (SFFAS 2, par. 58; SFFAS 3, par. 87)		
87. Is pre-1992 foreclosed property recorded at cost and adjusted, if necessary, to the lower of cost or net realizable value? (SFFAS 3, par. 81 & 85)		
88. Is the net realizable value based on an estimate of the market value of the property adjusted for any expected losses consistent with historical experience, abnormal market conditions, and time limitations as well as any other costs of the sale? (SFFAS 3, par. 81 & 86)		

Section III Balance Sheet

Assets **Credit Program Receivables (52 - 92)**	**Yes, No, or N/A**	**Explanation**
89. Is the estimate of market value based on one of the following criteria? a. the market value of the property if an active market exists b. the market value of similar properties if no active market exists c. a reasonable forecast of expected cash flows adjusted for estimates of all holding costs, including any cost of capital (SFFAS 3, par. 85)		
90. For pre-1992 foreclosed property, are third- party claims recorded at the expected amount of cash required to settle the claims? (SFFAS 3, par. 87)		
91. If foreclosed property is not sold but placed into operation, is the asset transfer treated in the same manner as a sale to a third party? (SFFAS 3, par. 90)		

Section III Balance Sheet

Assets Credit Program Receivables (52 - 92)	Yes, No, or N/A	Explanation
92. When the government acquires foreclosed assets in full or partial settlement of a direct or guaranteed loan (pre-1992 and post-1991), is the following information disclosed? a. valuation basis for foreclosed property b. changes from prior-year's accounting methods, if any c. restrictions on the use/disposal of property d. balances by categories (i.e., pre-1992 and post-1991 foreclosed property) e. number of properties held and average holding period by type or category and f. number of properties for which foreclosure proceedings are in process at the end of the period (SFFAS 3, par. 91; OMB Bull. 97-01 as amended (Jan. 7, 2000), item K, pp. 58 & 59)		

Section III Balance Sheet

Assets **Cash and Other Monetary Assets (93 - 95)**	**Yes, No, or N/A**	**Explanation**
Cash (including imprest funds) consists of: coins, paper currency, negotiable instruments (such as checks, money orders, and bank drafts), demand deposits, and foreign currencies stated in U. S. dollars at the financial statement date exchange rate. (SFFAS 1, par. 27; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19) *Other monetary assets consist of other items such as gold, special drawing rights, and U.S. reserves in the International Monetary Fund (IMF). (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19 & p. 45, item C)*		
93. Are entity cash (amounts held and authorized to be spent by the entity) and nonentity cash (amounts held on behalf of other entities such as Treasury) separately reported? (SFFAS 1, par. 28 & 29; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19)		
94. Are the components of cash and other monetary assets disclosed and described in a note to the financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19 & pp. 44 & 45, note 3)		
95. If cash is restricted, is the nature and reason disclosed? (SFFAS 1, par. 30; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 45, note 3, item E)		

Section III Balance Sheet

Assets **Inventory and Related Property (96 - 112)**	**Yes, No, or N/A**	**Explanation**
Inventory is tangible personal property that is (a) held for sale, (b) in process of production for sale, or (c) to be consumed in the production of goods for sale or in the provision of services for a fee. Inventory does not include other assets held for sale such as (a) stockpile materials, (b) seized and forfeited property, (c) foreclosed property, and (d) goods held under price support and stabilization programs. (SFFAS 3, par. 17)		
96. Is inventory categorized and either separately reported or disclosed in the notes as the following? a. inventory held for current sale b. inventory held in reserve for future sale c. excess, obsolete, and unserviceable inventory d. inventory held for repair (SFFAS 3, par. 18, 27, 29, & 32; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 59, note 8)		
97. Is inventory valued at historical cost, latest acquisition cost, or net realizable value? (SFFAS 3, par. 20 & 26)		
98. If inventory is valued at historical cost, does that cost include the purchase amount and all other costs incurred to bring the inventory into its current condition and location? (SFFAS 3, par. 21)		

Section III Balance Sheet

Assets Inventory and Related Property (96 - 112)	Yes, No, or N/A	Explanation
99. Are one of the following historical cost flow assumptions used to value inventory? a. first-in, first out (FIFO) b. weighted average c. moving average d. any other valuation method (such as a standard cost system) whose results reasonably approximate “a” “b” or “c” (SFFAS 3, par. 22)		
100. Are abnormal costs, such as excessive handling or rework costs, charged to expenses for the period? (SFFAS 3, par. 21)		
101. Is donated inventory valued at its fair value at the time of donation? (SFFAS 3, par. 21)		
102. Is inventory acquired through exchange of nonmonetary assets (e.g., barter) valued at the fair value of the asset received at the time of the exchange? (SFFAS 3, par. 21)		
103. If the latest acquisition cost method of inventory valuation is used, is the latest invoice price (actual cost) applied to all like units, including those acquired through donation and nonmonetary exchange? (SFFAS 3, par. 23)		
104. Under the latest acquisition cost method, is the inventory revalued periodically (or at least by the end of the fiscal year)? (SFFAS 3, par. 23)		

Section III Balance Sheet

Assets **Inventory and Related Property (96 - 112)**	**Yes, No, or N/A**	**Explanation**
105. If the latest acquisition cost method is used to value inventory, is the reported cost of goods sold adjusted by the difference between the beginning and ending unrealized holding gains and losses? (SFFAS 3, par. 25)		
106. If inventory is valued at net realizable value, does it meet the following criteria? a. There is an inability to determine approximate cost. b. There is immediate marketability at quoted prices. c. There is unit interchangeability (e.g., petroleum reserves). (SFFAS 3, par. 26)		
107. Is excess, obsolete, and unserviceable inventory valued at its expected net realizable value? (SFFAS 3, par. 30)		
108. When inventory is declared excess, obsolete, or unserviceable is the difference between the carrying amount and the expected net value recognized as a loss (or gain) and either separately reported or disclosed? (SFFAS 3, par. 30)		
109. Are any subsequent adjustments to the inventory's net value or any loss (or gain) upon disposal recognized as losses (or gains)? (SFFAS 3, par. 30)		

Section III Balance Sheet

Assets **Inventory and Related Property (96 - 112)**	**Yes, No, or N/A**	**Explanation**
110. When inventory is held for repair is it valued using either of the following? a. the allowance method (i.e., it is valued at the same value as a serviceable item and a contra-asset repair allowance account is set up) b. the direct method (original carrying value of the inventory less estimated repair costs) (SFFAS 3, par. 32 & 33)		
111. If inventory is transferred to "inventory held for repair," are estimated prior-period repair costs either credited to the repair allowance or to the inventory and reported as an adjustment to equity? (SFFAS 3, par. 34)		

Section III Balance Sheet

Assets **Inventory and Related Property (96 - 112)**	**Yes, No, or N/A**	**Explanation**
112. Does the entity disclose the following about its inventory? a. the general composition b. the basis for determining inventory values (including the valuation method and any cost flow assumptions) c. changes from prior years' accounting methods, if any d. balances for the major categories of inventory if not broken out in the financial statements e. restrictions on the sale of inventory f. the decision criteria for categorizing inventory g. changes in the criteria for categorizing inventory (SFFAS 3, par. 28, 31, & 35; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 59, note 8)		

Section III Balance Sheet

Assets **Operating Materials and Supplies (113 - 120)**	Yes, No, or N/A	Explanation
Operating materials and supplies are tangible personal property to be consumed in normal operations. Excluded are (a) operating materials and supplies acquired to construct real property and equipment for the entity's use, (b) stockpile materials, (c) price stabilization goods, (d) foreclosed property, (e) seized and forfeited property, and (f) inventory. (SFFAS 3, par. 36)		
113. Are operating materials and supplies categorized and reported or disclosed as the following? a. operating materials and supplies held for use b. operating materials and supplies held in reserve for future use c. excess, obsolete, or unserviceable operating materials and supplies (SFFAS 3, par. 36, 37, 45, & 47; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 60, note 8)		
114. Are operating materials and supplies recognized and reported as assets when produced or purchased? (SFFAS 3, par. 38)		
115. Are operating materials and supplies valued at historical cost, including all appropriate purchase and production costs incurred to bring the items to their current condition and location? (SFFAS 3, par. 43)		
116. Are donated operating materials and supplies valued at their fair value at the time of donation? (SFFAS 3, par. 43)		

Section III Balance Sheet

Assets **Operating Materials and Supplies (113 - 120)**	**Yes, No, or N/A**	**Explanation**
117. Are operating materials and supplies acquired through exchange of nonmonetary assets (e.g., barter) valued at the fair value of the asset received at the time of the exchange? (SFFAS 3, par. 43)		
118. Is one of the following historical cost flow assumptions used to value ending materials and supplies under the consumption method? a. first-in, first out (FIFO) b. weighted average c. moving average or d. any other valuation method (such as a standard cost system) whose results reasonably approximate "a," "b," or "c" (SFFAS 3, par. 42 & 44)		

Section III Balance Sheet

Assets **Operating Materials and Supplies (113 - 120)**	**Yes, No, or N/A**	**Explanation**
119. Does the entity disclose the following information about its operating materials and supplies? a. general composition b. balances in each operating material and supply category c. change from prior years' accounting methods d. basis for valuation (including valuation method and any cost flow assumptions) e. restrictions on the use of materials and supplies, if any f. decision criteria for identifying each category to which material and supplies are assigned g. changes in the criteria for identifying the category to which the operating materials and supplies are assigned (SFFAS 3, par. 46, 49 & 50; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 60)		
120. Are excess, obsolete, and unserviceable operating materials valued at their estimated net realizable value? (SFFAS 3, par. 48)		

Section III Balance Sheet

Assets **Stockpile Materials** **(121 - 131)**	**Yes, No, or N/A**	**Explanation**
Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or national emergencies. Not included under this category are (a) items held for sale or use in normal operations, (b) items held for use in the event of an agency's operating emergency or contingency, and (c) price support and stabilization goods. (SFFAS 3, par. 51)		
121. Are stockpile materials recognized and reported as assets when acquired (i.e., recognized as assets using the consumption method)? (SFFAS 3, par. 52)		
122. Are stockpile materials valued using an acceptable historical cost flow method (i.e., FIFO, weighted average, moving average, or other equivalent method)? (SFFAS 3, par. 53)		
123. Does the cost of stockpile materials include all appropriate costs incurred in bringing the materials to their current condition and location? (SFFAS 3, par. 53)		
124. If stockpile materials have either suffered a permanent decline in value below cost or have become damaged or decayed, has their value been reduced to net realizable value? (SFFAS 3, par. 54)		
125. Is the resultant decline in value recognized as a loss or expense in the period in which it occurs? (SFFAS 3, par. 54)		

Section III Balance Sheet

Assets **Stockpile Materials** **(121 - 131)**	**Yes, No, or N/A**	**Explanation**
126. When stockpile materials are authorized to be sold, are those materials disclosed as stockpile materials held for sale? (SFFAS 3, par. 55)		
127. Are the stockpile materials authorized for sale valued using the same basis used before they were authorized for sale? (SFFAS 3, par. 55)		
128. Is any difference between the carrying amount (i.e., purchase price or cost) of the stockpile materials held for sale and their estimated selling price disclosed? (SFFAS 3, par. 55)		
129. If stockpile materials are sold, is the cost removed from stockpile materials and reported as a cost of goods sold? (SFFAS 3, par. 55)		
130. Is any gain (or loss) from the sale of stockpile materials recognized as a gain (or loss) at that time? (SFFAS 3, par. 55)		

Section III Balance Sheet

Assets **Stockpile Materials** **(121 - 131)**	**Yes, No, or N/A**	**Explanation**
131. Does the entity disclose the following information about its stockpile materials? a. general composition b. basis for valuing stockpile materials, including valuation method and any cost flow assumptions c. changes from prior-year's accounting methods, if any d. restrictions on the use of the material e. balances in each category of stockpile material (i.e., stockpile materials held and held for sale) f. criteria for grouping stockpile material held for sale g. any changes in criteria for categorizing stockpile materials held for sale (SFFAS 3, par. 56; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 60)		

Section III Balance Sheet

Assets **Seized Property (132 - 141)**	**Yes, No, or N/A**	**Explanation**
Seized property includes monetary instruments, real property, and tangible personal property belonging to others in actual or constructive possession of a custodial agency. (SFFAS 3, par. 59) *There may be as many as three government entities involved with seized property: (1) the seizing agency, (2) the custodial agency and (3) a "central fund" set up for financial record- keeping. (SFFAS 3, par. 57)*		
132. If seized monetary assets are reported, is a corresponding liability also reported? (SFFAS 3, par. 61; and OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 20)		
133. If the central fund is other than the seizing or custodial entity, does the custodial entity maintain sufficient internal records to carry out its stewardship responsibility? (SFFAS 3, par. 60)		
134. Does the custodial agency recognize seized monetary instruments as assets at their market values and set up corresponding liabilities? (SFFAS 3, par. 61 & 65)		
135. Is the existence of seized property other than monetary instruments disclosed in a note to the statements and accounted for in the entity's property management records? (SFFAS 3, par. 62)		
136. Is seized property valued at its market value when seized (or as soon thereafter as reasonably possible if the market value cannot be readily determined)? (SFFAS 3, par. 63)		

Section III Balance Sheet

Assets **Seized Property (132 - 141)**	**Yes, No, or N/A**	**Explanation**
137. Is the market value of seized property based on the value of the property assuming an active market exists for the property? (SFFAS 3, par. 63)		
138. If no active market exists for the property in the general area in which it was seized, is a value in the principle market nearest the place of seizure used? (SFFAS 3, par. 63)		
139. Is the valuation of property seized under the Internal Revenue Code based on the taxpayer's equity (market value less any third-party liens)? (SFFAS 3, par. 64)		
140. Does the entity disclose and present by type of seized property in its custody the following? a. an explanation of what constitutes a seizure and a general description of the property b. valuation method(s) c. changes from prior years' accounting methods, if any and d. analysis of change in seized property (including dollar value and number of seized properties) that are on hand at the beginning of the year, seized during the year, disposed of during the year, and on hand at the end of the year (SFFAS 3, par. 66; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 61)		
141. Does the entity also disclose the method of disposal of seized property, if material? (SFFAS 3, par. 66; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 61)		

Section III Balance Sheet

Assets **Forfeited property (142 - 149)**	**Yes, No, Or N/A**	**Explanation**
Forfeited property consists of (a) property acquired through forfeiture proceedings, (b) property acquired to satisfy a tax liability, and (c) unclaimed and abandoned merchandise. (SFFAS 3, par. 67 & 68)		
142. When a forfeiture judgment is obtained for seized monetary instruments: a. Are they reclassified as forfeited monetary instruments at the current market value? b. Is a revenue credit recognized in an amount equal to the value of the monetary asset? c. Is the liability associated with the seized monetary instrument classification removed? (SFFAS 3, par. 69)		
143. When a forfeiture judgment is obtained for real, tangible, and intangible property: a. Is the property recorded as an asset at its fair value at the time of forfeiture? b. Is an allowance account (contra-asset account) established for liens or claims from third party claimants against forfeited property? c. Is an offsetting deferred revenue credit recognized? d. Is revenue recognized upon sale and the merchandise and deferred revenue (referred to in “a” and “c” above) removed from the accounts? (SFFAS 3, par. 70, 72, 75, 76, & 77; SFFAS 6, par. 33)		

Section III Balance Sheet

Assets **Forfeited property (142 - 149)**	**Yes, No, Or N/A**	**Explanation**
144. Does the entity disclose the following information about forfeited property under its control (including forfeited property) which may be donated or destroyed but not booked as an asset or sold due to legal restrictions? a. composition of the property b. valuation method(s) c. changes from prior year's accounting methods d. analysis of the changes in forfeited property by type and dollar amount that includes: i. number of forfeitures on hand at the beginning of the year ii. additions iii. disposals and method of disposition iv. end of the year balances e. restrictions on use or disposition of the property and, if available f. estimates of the value of property to be distributed to other federal, state, and local agencies in future reporting periods? (SFFAS 3, par. 71 & 78; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 61)		

Section III Balance Sheet

Assets **Forfeited property(142 - 149)**	**Yes, No, Or N/A**	**Explanation**
145. If the entity reclassifies forfeited property not held for sale to property held for donation or use: a. Is revenue recognized upon approval of distribution or use of property? b. Is the associated deferred revenue reversed on the books? (SFFAS 3, par. 73 & 74)		
146. Is a distinction maintained in the entity's accounting reports between revenue arising from the sale of forfeited property and revenue arising from forfeited property being transferred, donated, or placed into official use? (SFFAS 3, par. 75)		
147. Is property acquired by the government to satisfy a taxpayer's liability recorded when title to the property passes to the federal government, and is a credit made to the related account receivable? (SFFAS 3, par. 76)		
148. Is the property forfeited in satisfaction of a taxpayer's liability valued at its market value less any third party liens? (SFFAS 3, par. 76)		
149. Upon sale of the forfeited property mentioned in the previous question, is revenue recognized in the amount of the sale proceeds, and are the property and third party liens removed from the accounts? (SFFAS 3, par. 76)		

Section III Balance Sheet

Assets **Goods Held Under Price Support and Stabilization Programs (150 – 163)**	**Yes, No, or N/A**	**Explanation**
Goods acquired under price support and stabilization programs (i.e., commodities) are items of commerce or trade (usually farm commodities) having an exchange value. Producers of the goods: (1) are either given nonrecourse loans under which they can, at their option, repay the loan with interest or surrender their commodity pledged as collateral for the loan or (2) may enter into purchase agreements that allow the producer of the option to sell commodities to the government (the Commodity Credit Corporation) at the price support rate. (SFFAS 3, par. 92, 93, & 94)		
150. Are nonrecourse loans recognized as assets at face value when the loan principal is disbursed? (SFFAS 3, par. 96)		
151. Is interest accrued on nonrecourse loans? (SFFAS 3, par. 96)		
152. Is a valuation allowance set up to recognize losses on nonrecourse loans when it is "more likely than not" (i.e., more than a 50-percent chance) that loans will not be totally collected? (SFFAS 3, par. 102)		
153. Is this allowance reestimated on each financial reporting date? (SFFAS 3, par. 102)		

Section III Balance Sheet

Assets **Goods Held Under Price Support and Stabilization Programs (150 – 163)**	**Yes, No, or N/A**	**Explanation**
154. When the entity has entered into a purchase agreement and there is an expected loss: a. Is a loss (i.e., the difference between the contract price and the net realizable value of the commodities) recognized if it is probable that a loss has been incurred and is reasonably measurable? b. Is a corresponding liability recognized? (SFFAS 3, par. 97 & 103)		
155. If the contingent loss arising from a purchase agreement is not recognized because it is less than probable or is not reasonably measurable, is the contingent loss disclosed if it is at least "reasonably possible that a loss may occur?" (SFFAS 3, par. 98)		
156. When commodities are acquired to satisfy a nonrecourse loan or purchase agreement, are they recognized and reported as assets at the lower of cost or net realizable value? (SFFAS 3, par. 99 & 104)		
157. Does the cost for the commodities acquired through a nonrecourse loan settlement include the following amounts? a. loan principal (excluding interest) b. processing and packaging costs incurred after acquisition c. other costs (e.g., transportation) incurred in taking title to the commodity (SFFAS 3, par. 105)		

Section III Balance Sheet

Assets **Goods Held Under Price Support and Stabilization Programs (150 – 163)**	**Yes, No, or N/A**	**Explanation**
158. Does the cost for commodities acquired though a purchase agreement include the following amounts? a. the unit price agreed upon in the purchase agreement multiplied by the number of units purchased b. other costs incurred in taking title to the commodity (SFFAS 3, par. 106)		
159. Is any adjustment necessary to reduce the carrying amount of the acquired commodities to the lower of cost or net realizable value recognized as a loss in the current period and recorded in a commodity valuation allowance? (SFFAS 3, par. 99 & 107)		
160. Conversely, are recoveries of previously recorded losses in the current period recognized up to the point of any previously recognized losses on the commodities, and is the commodity valuation allowance reduced accordingly? (SFFAS 3, par. 107)		
161. When commodities acquired to satisfy the terms of a nonrecourse loan or purchase agreement are sold: a. Are revenues recognized? b. Is the carrying amount of the commodities removed from the asset account and reported as a cost of goods sold? (SFFAS 3, par. 100)		

Section III Balance Sheet

Assets **Goods Held Under Price Support and Stabilization Programs (150 – 163)**	**Yes, No, or N/A**	**Explanation**
162. When commodities are held for purposes other than sale, is the carrying amount reported as an expense and removed from the commodity asset account upon transfer? (SFFAS 3, par. 101)		
163. Is the following information related to goods held under price support and stabilization programs disclosed? a. basis for valuing commodities including valuation method and cost flow assumptions (e.g., FIFO, weighted average) b. changes from prior-year's accounting methods c. restrictions on the use, disposal, or sale of commodities d. analysis of the changes in dollar amount and volume of commodities, including those i. on hand at the beginning of the year ii. acquired during the year iii. disposed of during the year by method of disposition iv. on hand at the end of the year v. on hand at year's end and estimated to be donated or transferred during the coming period vi. received as a result of surrender of collateral related to nonrecourse loans outstanding vi. dollar value and volume of purchase agreement commitments (SFFAS 3, par. 108 & 109; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 62)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
General property, plant, and equipment (PP&E) are any property, plant, and equipment used in providing goods or services. (SFFAS 6, par. 23)		
164. Has the entity established, disclosed, and consistently followed appropriate capitalization thresholds for property, plant, and equipment (PP&E) suitable to its financial and operational conditions? (SFFAS 6, par. 13, 148, & 149)		
165. Does the entity follow a policy that ensures that its PP&E consists of tangible assets that meet the following criteria? a. They have estimated useful lives of 2 years or more. b. They are not intended for sale in the ordinary course of operations. c. They are acquired or constructed with the intention of being used or being available for use by the entity. (SFFAS 6, par. 17)		
166. Does PP&E also consist of the following items? a. assets acquired through capital leases b. property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, federal contractors) c. land rights (SFFAS 6, par. 18)		
Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. Operating leases are leases in which the federal entity does not assume the risks of ownership of PP&E. Multiyear service contracts and multiyear purchase agreements for expendable commodities are not capital leases. (SFFAS 6, par. 20, footnote 22; SFFAS 5, par. 43)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
167. Does the entity classify a lease as a capital lease if at its inception the lease meets one or more of the following criteria? a. The lease transfers ownership of the property to the lessee by the end of the lease term. b. The lease contains an option to purchase the leased property at a bargain price. c. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property, and the beginning of the lease term does not fall within the last 25 percent of the total estimated economic life of the property. d. The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property, and the beginning of the lease term does not fall within the last 25 percent of the total estimated economic life of the property. (SFFAS 6, par. 20; SFFAS 5 par. 43)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
168. Does the general PP&E asset line item exclude the following items? a. items held in anticipation of physical consumption such as operating materials and supplies b. items the federal entity has a reversionary interest in c. national defense PP&E d. heritage assets (except multiuse heritage assets[6]) e. stewardship land (i.e., land not included in general PP&E) (SFFAS 6, par. 19, 21, 57, 58, 150 & 151; SFFAS 11, par. 7; SFFAS 16, par. 6)		
169. In determining the level at which the entity categorizes its PP&E, has the entity considered the following factors? a. the cost of maintaining different accounting methods for property and the usefulness of the information b. the diversity of the PP&E (e.g., useful lives, value, alternative uses) c. the future disposition of the PP&E d. the programs being served by the PP&E (SFFAS 6, par. 22)		

[6] Multiuse heritage assets are heritage assets used predominately in general government operations (e.g., the main Treasury building which is used as an office building).

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net)** **(164 – 195)**	**Yes, No, or N/A**	**Explanation**
170. Does the entity categorize an asset under general PP&E if it has one or more of the following characteristics? a. It could be used for alternative purposes (e.g., by other federal programs, state or local governments, or nongovernmental entities) but is used to produce goods or services or to support the mission of the entity. b. It is used for business-type activities. c. It is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to other hospitals). (SFFAS 6, par. 23; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 21)		
171. Is PP&E of entities operating as business-type activities categorized as general PP&E whether or not it meets the definition of other PP&E categories (e.g., heritage assets)? (SFFAS 6, par. 24; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 21)		
172. Are lands and land rights specifically acquired for or in connection with general PP&E included in general PP&E? (SFFAS 6, par. 25; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 21)		
173. Is all general PP&E recorded at cost? (SFFAS 6, par. 26)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
174. Does the cost of general PP&E include all costs incurred to bring the PP&E to a form and location suitable for its intended use, such as the following? a. amounts paid to vendors b. transportation charges to the point of initial use c. handling and storage costs d. labor and other direct or indirect production costs (for assets produced or constructed) e. costs of engineering, architectural, and other outside services for designs, plans, specifications, and surveys f. acquisition and preparation costs of buildings and other facilities g. an appropriate share of the cost of the equipment and facilities used in construction work h. fixed equipment and related installation costs required for activities in a building or facility i. direct costs of inspection, supervision, and administration of construction contracts and construction work j. legal and recording fees and damage claims k. fair value of facilities and equipment donated to the government l. material amounts of interest costs paid (SFFAS 6, par. 26)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
175. Is the recognized cost of general PP&E acquired under a capital lease the lower of either the fair value of the asset or liability for the capital lease at its inception? (SFFAS 6, par. 29)		
176. Is the cost of general PP&E acquired through donation, will, or judicial process, excluding forfeiture, capitalized at estimated fair value at the time acquired by the government? (SFFAS 6, par. 30)		
177. Is general PP&E transferred from other federal entities capitalized at the book value recorded by the transferring entity? (SFFAS 6, par. 31)		
178. Is the asset capitalized at the fair value at the time of the transfer from another federal entity if the receiving entity cannot reasonably ascertain the book value of the PP&E transferred? (SFFAS 6, par. 31)		
179. If general PP&E is acquired through exchange with a nonfederal entity, is it capitalized at the fair value of the PP&E surrendered at the time of the exchange? (SFFAS 6, par. 32)		
180. If, however, the fair value of the PP&E acquired through exchange is more readily determinable than that of the PP&E surrendered, is the acquired general PP&E capitalized at the acquired PP&E's fair value? (SFFAS 6, par. 32)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
181. If the fair values of the exchanged PP&E are not determinable, is the acquired general PP&E capitalized at the book value of the PP&E surrendered? (SFFAS 6, par. 32)		
182. If cash is included in an exchange of general PP&E, is the cost of PP&E acquired increased or decreased, respectively, by the amount of cash surrendered or received? (SFFAS 6, par. 32)		
183. Is PP&E recognized when title passes to the acquiring entity or when PP&E is delivered to the entity or to an agent of the entity? (SFFAS 6, par. 34)		
184. If general PP&E is under construction, is it recorded as construction work in process until it is placed into service? (SFFAS 6, par. 34)		
185. Do estimates of useful life of general PP&E consider such factors as physical wear and tear and technological change? (SFFAS 6, par. 35)		
186. Except for land and land rights of unlimited duration, is general PP&E less its estimated salvage/residual value depreciated in a rational and systematic manner over its estimated useful life? (SFFAS 6, par. 35, 122, & 136; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 21)		
187. Are changes in estimated useful life or salvage and residual value of general PP&E accounted for in the period of change and future periods? (SFFAS 6, par. 35)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net)** **(164 – 195)**	**Yes, No, or N/A**	**Explanation**
188. Are depreciation and amortization expenses accumulated in contra asset accounts? (SFFAS 6, par. 36)		
189. Are costs that either extend the useful life of existing general PP&E or enlarge or improve its capacity capitalized and depreciated/amortized over the remaining useful life of the asset? (SFFAS 6, par. 37)		
190. When general PP&E is disposed of, retired, or removed from service, is the asset removed from the asset accounts along with the associated accumulated depreciation/amortization? (SFFAS 6, par. 38)		
191. Are the differences between the book value and the amounts realized upon removal of service, retirement, or disposal of general PP&E recognized as a current-period gain or loss? (SFFAS 6, par. 38)		
192. If prior to disposal, retirement, or removal from service, a general PP&E asset no longer provides service in the operations of the entity: a. Is it removed from the corresponding asset and contra asset accounts? b. Is its net realizable value recorded in an appropriate asset account? c. Is the difference between its book value and net realizable value recorded as a current period gain or loss? (SFFAS 6, par. 39)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net) (164 – 195)**	**Yes, No, or N/A**	**Explanation**
193. If historical cost information for existing general PP&E has not been maintained, are cost estimates based on either of the following costs? a. the cost of similar assets at the time of acquisition b. the current cost of similar assets discounted for inflation since the time of acquisition (SFFAS 6, par. 40)		
194. If general PP&E would have been substantially depreciated or amortized had it been recorded upon acquisition, does the entity weigh materiality and cost-benefit in considering either of the following alternatives? a. Record only improvements made during the period beyond the initial expected useful life of general PP&E. b. Make an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building-by-building estimate). (SFFAS 6, par. 42)		

Section III Balance Sheet

Assets **General Property/Plant/Equipment (Net)** **(164 – 195)**	**Yes, No, or N/A**	**Explanation**
195. Does the entity make the following minimum disclosures about its general PP&E? a. the cost, associated accumulated depreciation, and book value by major class (e.g., building and structures, fixtures, equipment) b. the estimated useful lives for each major class c. the method(s) of depreciation for each major class d. capitalization threshold(s) including any changes in thresholds(s) during the period e. restrictions on the use or convertibility of general PP&E f. in the period in which SFFAS 6 standards are implemented, adjustments to the PP&E and related contra asset accounts by major class (e.g., buildings, equipment, and vehicles) (SFFAS 6, par. 44 & 45; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 62, note 9)		

Section III Balance Sheet

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
Software includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. *"Internal use software" is software that is purchased from commercial vendors "off the shelf," internally developed, or contractor-developed solely to meet the entity's internal or operational needs. (SFFAS 10, par. 8)*		
196. Does the entity capitalize the cost of software when such software meets the following criteria? a. specifically identifiable b. determinate life of 2 years or more c. not intended for sale in the ordinary course of operations d. acquired or constructed with the intention of being used by the entity e. meets the criteria for general property, plant, and equipment[7] (SFFAS 10, par. 15, 38, & 48)		
197. Are capitalized software costs included under general PP&E or reported separately if the following criteria apply? a. The costs are intended to be primarily recovered through user charges. b. The feasibility has been proven. (OMB 97-01 as amended (Jan. 7, 2000), p. 21)		

[7] General property, plant, and equipment are defined in SFFAS 6, par. 23 – 25.

Section III Balance Sheet

Assets Software (196 – 226)	Yes, No, or N/A	Explanation
198. Does the capitalized development cost of internally developed software include the full cost (i.e., direct and indirect cost) incurred during the software development stage? (SFFAS 10, par. 16)		
199. Are capitalized software development costs limited to costs incurred after the following steps have been taken? a. Management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more. b. The conceptual formulation, design, and testing of possible software project alternatives (i.e., preliminary design stage) have been completed. (SFFAS 10, par. 11, 12, 16, 45, 62, & 64)		
200. Do software capitalization costs include those for new software[8] and documentation manuals? SFFAS 10, par. 17, 60, & 61)		
201. Do the capitalized costs for commercial off-the-shelf (COTS) software include the amount paid to the vendor? (SFFAS 10, par. 18)		

[8] For example: salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies.

Section III Balance Sheet

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
202. Do the capitalized costs for contractor-developed software include the amount paid to a contractor to design, program, install, and implement the software? (SFFAS 10, par. 18)		
203. Does the entity capitalize material internal costs incurred to implement the commercial-off-the-shelf software (COTS) or contractor-developed software and otherwise make it ready for use? (SFFAS 10, par. 18)		
204. Does the entity expense all data conversion costs, including the cost to develop or obtain the relevant software, related to internally developed, contractor-developed, or COTS software? (SFFAS 10, par. 14, 19, & 69)		
205. Does the entity expense costs (e.g., ongoing training for users, preventive maintenance) incurred after the completion of final acceptance testing? (SFFAS 10, par. 14 & 20)		
206. Does the entity treat software that serves both internal uses and stewardship purposes (e.g., a global positioning system) as internal use software and capitalize it to the extent such software meets criteria for general PP&E? (SFFAS 10, par. 15 & 21)		

Section III Balance Sheet

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
207. Is computer software that is integrated into general PP&E and necessary to operate it, rather than perform an application, considered part of the PP&E of which it is an integral part, and is it capitalized and depreciated accordingly? (SFFAS 10, par. 22)		
208. If the entity purchased software as part of a package of products and services, does it use a reasonable estimate in allocating the cost difference between capitalizable and noncapitalizable (i.e., expense) elements? (SFFAS 10, par. 23)		
209. Does the entity expense software costs that are not susceptible to allocation between maintenance and relatively minor enhancements? (SFFAS 10, par. 23)		
210. Has the entity established realistic and defensible capitalization thresholds for its internal-use software including bulk purchases of software programs and modules or components of a total software system? (SFFAS 10, par. 24 & 68)		
211. Does the entity capitalize the acquisition cost of enhancements to existing internal-use software, as well as related modules, when it is more likely than not that they will result in significant additional capabilities? (SFFAS 10, par. 25, 42, 43, & 73)		

Section III Balance Sheet

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
212. Does the entity expense the cost of minor enhancements resulting from ongoing systems maintenance as well as the purchase of enhanced versions of software for a minimal charge? (SFFAS 10, par. 26 & 73)		
213. Are material expenditures to add capability and functionality to computer software capitalized? (SFFAS 10, par. 27)		
214. If the expensed repair or upgrades of computer software extends its useful life, is the amortization period adjusted? (SFFAS 10, par. 27, 42, & 43)		
215. Does the entity recognize a loss upon impairment of computer software if either of these conditions apply? a. The software is no longer expected to provide substantive service and will be removed from service. b. A significant reduction occurs in the capabilities functions of the software (or module thereof). (SFFAS 10, par. 28, 29, 30, 75 & 76)		

Section III Balance Sheet

Assets Software (196 – 226)	Yes, No, or N/A	Explanation
216. If the impaired software is to remain in use, is the loss due to impairment measured as the difference between the book value and either of the following amounts? a. the cost to acquire software that would perform similar remaining functions (i.e., unimpaired functions) b. the portion of book value attributable to the remaining functional elements of the software (SFFAS 10, par. 29)		
217. If the loss due to impairment cannot be determined, is the book value of the software amortized over the remaining useful life of the software? (SFFAS 10, par. 29)		
218. If impaired software is to be removed from use, is the loss due to impairment measured as the difference between the book value and net realizable value (NRV)? (SFFAS 10, par. 30 & 44)		
219. Does the entity transfer the NRV, if any, to an appropriate asset account until such time as the software is disposed of and the NRV realized? (SFFAS 10, par. 30)		

Section III **Balance Sheet**

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
220. If the entity's managers conclude that, "more likely than not," developmental software (or a module thereof) will not be completed and placed in service, is the accumulated book value (or the balance in a work-in-process account, if applicable) reduced to reflect the expected NRV and recognized as a loss? (SFFAS 10, par. 31)		
221. Does the entity amortize capitalized software in a systematic and rational manner over the estimated useful life of the software? (SFFAS 10, par. 32 & 70)		
222. Does amortization of capitalized software not begin until successful completion of testing? (SFFAS 10, par. 33, 41, & 71)		
223. If the use of software is dependent on the completion of another or other software module(s), does the amortization not begin until the complementary module(s) have successfully completed testing? (SFFAS 10, par. 33)		
224. Are additions to the book value or changes in useful life of capitalized software treated prospectively (i.e., during the period of change and future periods only) when the software is amortized? (SFFAS 10, par. 34)		

Section III Balance Sheet

Assets **Software (196 – 226)**	**Yes, No, or N/A**	**Explanation**
225. When the entity replaces existing internal-use software with new software, is the unamortized cost of the old software expensed when the new software has successfully completed testing? (SFFAS 10, par. 34)		
226. Does the entity disclose, if material, the following information regarding its capitalized software? a. the cost, associated amortization, and book value b. the estimated useful life for each major class of software c. the method(s) of amortization (SFFAS 10, par. 35; SFFAS 6, par. 45)		

Section III Balance Sheet

Assets **Other Assets (227 – 238)**	**Yes, No, or N/A**	**Explanation**
227. Are other assets listed and described in a note to the financial statements and broken out by homogenous groups within the major categories of assets (i.e., entity versus nonentity, and intragovernmental versus other entity assets)? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 48, note 6)		
Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover the recipient's anticipated expenses or as advance payments for the costs of goods and services acquired by an entity. (SFFAS 1, par. 57) *Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred (SFFAS 1, par. 58)*		
228. Are advances and prepayments recorded as assets and disclosed in the notes? (SFFAS 1, par. 59; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 19)		
229. Are amounts of advances or prepayments — remaining after related goods or services have been received, contract terms have been met, progress payments have been made, or prepaid expenses have expired — transferred to accounts receivable? (SFFAS 1, par. 59)		
230. Are advances and prepayments that are made to federal entities accounted for and reported separately from those made to nonfederal entities? (SFFAS 1, par. 61)		
231. Are advances and prepayments paid out reported separately (i.e., not netted) from advances and prepayments received? (SFFAS 1, par. 60)		

Section III **Balance Sheet**

Assets **Other Assets (227 – 238)**	**Yes, No, or N/A**	**Explanation**
Property, plant, and equipment are classified as heritage assets if they have (1) historical or natural significance; (2) cultural, educational, or artistic importance; or (3) significant architectural characteristic. (SFFAS 6, par. 57)		
232. If the predominant use is in general government operations (e.g., main U.S. Treasury building, which is a heritage asset used as an office building), is acquisition, betterment, or reconstruction of all multiuse heritage assets capitalized as general PP&E and depreciated over the useful life of the assets? (SFFAS 16, par. 6 & 9; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 21)		
233. Does the entity also include a footnote disclosure explaining that "physical quantity" information for the multiuse heritage assets is included in supplemental stewardship reporting for heritage assets? (SFFAS 16, par. 9)		
234. Are multiuse heritage assets acquired through donation or devise recognized as general PP&E at the assets' fair value? (SFFAS 16, par. 11)		
235. Is the fair value[9] amount of such assets acquired through donation or devise recognized as "nonexchange revenue," as defined in SFFAS 7 in the Statement of Change in Net Position? (SFFAS No. 16, par. 11)		

[9] Fair value is the price for which an asset could be bought or sold in an arm's-length transaction between unrelated parties. Roman L. Well and Patrick C. O'Brien, *Accounting: The Language of Business*, 9th ed. (Sun Lakes, Arizona: Thomas Horton and Daughters, 1994).

Section III Balance Sheet

Assets **Other Assets (227 – 238)**	**Yes, No, or N/A**	**Explanation**
Land is defined as the solid part of the surface of the earth. Excluded from the definition of land are depletable resources, such as timber and other continental shelf resources. (SFFAS 6, par. 66 & 67)		
236. Are land and land rights owned by the federal government, except those acquired for or in connection with general PP&E, referred to as stewardship land in the entity's annual report? (SFFAS 6, par. 68, 137 & 228)		
237. Are significant structures that have been acquired with stewardship land and have a significant operating use treated as general PP&E (i.e., capitalized and depreciated) if used in operations? (SFFAS 6, par. 70 & 232)		
238. Is the cost of a structure acquired with stewardship land that is to be used in operations included in the acquisition cost of the land if one of the following apply? a. The structure's value is insignificant compared to the value of the land. b. The structure has little or no inherent value. c. The structure is merely a byproduct of the acquisition of the land. (SFFAS 6, par. 70)		

Section III Balance Sheet

<table>
<tr><th>Liabilities
Liabilities in General (239 - 240)</th><th>Yes, No, or, N/A</th><th>Explanation</th></tr>
<tr><td colspan="3">Liabilities of federal agencies are reported under two major categories: (1) liabilities covered by budgetary resources and (2) liabilities not covered by budgetary resources. Within each of these two categories, liabilities are classified as (1) intragovernmental liabilities, which are amounts owed to other federal entities or (2) governmental liabilities, which are amounts owed to nonfederal entities by the federal government or an entity within the federal government. (SFFAS 1, par. 21; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 22)

A liability for federal accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. (SFFAS 5, par. 19, 20, & 21; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)

Probable refers to that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. However, in the context of assessing the outcome of matters of pending or threatened litigation and unasserted claims and recognizing an associated liability, “probable” refers to that which is likely, not to that which is “more likely than not.” (SFFAS 5, par. 33; SFFAS 12, par. 10)

Measurable refers to that which can be quantified in monetary units with sufficient reliability to be reasonably estimable. (SFFAS 5, par. 34)</td></tr>
<tr><td>239. Are liabilities recognized when incurred regardless of whether they are covered by available budgetary resources (including those liabilities related to appropriations cancelled under "M" account legislation)? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)</td><td></td><td></td></tr>
</table>

Section III Balance Sheet

Liabilities **Liabilities in General (239 - 240)**	**Yes, No, or, N/A**	**Explanation**
240. Does the federal entity recognize a liability for probable and measurable future outflows or other sacrifices of resources arising from one or more of the following events? a. past exchange transactions b. government-related events, such as government-caused damages c. government-acknowledged events, such as natural disasters, for which the government has taken formal responsibility for the related costs d. nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date. (SFFAS 5, par. 19 - 34; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)		

Section III Balance Sheet

Liabilities Interest Payable (241 – 248)	Yes, No, or N/A	Explanation
Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities. (SFFAS 1, par. 74; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)		
241. Do accounts payable exclude amounts related to ongoing continuous expenses, such as salary and related benefits expense, which are classified as other current liabilities? (SFFAS 1, par. 75)		
242. Are accounts payable owed to other federal agencies reported separately from those owed to the public? (SFFAS 1, par. 76; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 22)		
243. When an entity accepts title to goods, whether the goods are delivered or in transit, does the entity recognize a liability for the unpaid cost of goods? (SFFAS 1, par. 77)		
244. If invoices for goods, for which the entity has accepted the title, are not available, does the entity estimate the amount owed? (SFFAS 1, par. 77)		
245. For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, are amounts recorded as payable based on an estimate of work completed under the contract or the agreement in accordance with the federal entity's engineering and management evaluation of actual performance progress and incurred costs? (SFFAS 1, par. 78 & 79)		

Section III Balance Sheet

Liabilities **Interest Payable (241 – 248)**	**Yes, No, or N/A**	**Explanation**
246. Are accounts payable covered by budgetary resources separately reported from those not covered by budgetary resources? (SFFAS 1, par. 80; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 22)		
247. Is interest incurred but unpaid on liabilities and late payments and refunds recognized as interest payable and reported as a liability at the end of each period? (SFFAS 1, par. 81; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 22)		
248. Is interest payable to federal entities reported separately from interest payable to the public? (SFFAS 1, par. 82)		

Section III Balance Sheet

Liabilities **Liabilities for Loan Guarantees (249 – 262)**	**Yes, No, or N/A**	**Explanation**
A loan guarantee is any guarantee, insurance (but not deposit insurance), or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender. (SFFAS 2, app. C) *The Federal Credit Reform Act of 1990 requires federal entities to estimate and budget for the costs arising from default of guaranteed loans made after fiscal year (FY) 1991 (i.e., post 1991). (SFFAS 2, par. 7; OMB 97-01 as amended (Jan. 7, 2000), p. 55)*		
249. Is the present value of estimated net cash outflows from post-1991 (i.e., committed after September 30, 1991) loan guarantees recognized as a liability? (SFFAS 2, par. 7 & 23)		
250. Does the entity disclose by loan program the face value of guaranteed loans outstanding and the amount of outstanding principal guaranteed? (SFFAS 2, par. 23; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 51, note 7, item F & p. 55, 1st par.)		
251. Does the entity disclose by loan program the estimated liabilities[10] arising from post-1991 loan guarantees? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 52, note 7, item G & p. 57, item G)		

[10] That is, the present value of the estimated net cash flows (outflows less inflows) to be paid by the entity arising from loan guarantees).

Section III Balance Sheet

Liabilities **Liabilities for Loan Guarantees (249 – 262)**	**Yes, No, or N/A**	**Explanation**
252. Is a liability for a pre-1992 (i.e., committed before October 1, 1991) loan guarantee recognized when it is more likely than not that the loan guarantee will require a future cash outflow to pay a default claim? (SFFAS 2, par. 39 & app. B, part IV A)		
253. Is the face value of pre-1992 guaranteed loans outstanding and related liability broken out by loan program and disclosed in a note to the financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000), note 7, items A & G; pp. 49, 52, 55, item A 1st par.; & p. 57, item G)		
254. Are the liabilities for the pre-1992 loan guarantees reestimated each year as of the date of the financial statements? (SFFAS 2, par. 39)		
255. Does the entity disclose, by loan program, whether pre-1992 loan guarantees are reported on a present-value basis[11] or under the allowance-for-loss method?[12] (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 52 items, G1 & G2; p. 55, item A, 4th par.; & p. 57, item G)		
256. When the total loan guarantee liability for all of the credit programs is negative, is this reported as an asset? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 23)		

[11] Under the present-value method, the liability for loan guarantees is the present value of the expected net cash outflows due to the loan guarantees.

[12] Under the allowance-for-loss method, the liability for loan guarantees is the amount the agency estimates will more likely than not require future cash outflow to pay default claims.

Section III Balance Sheet

Liabilities **Liabilities for Loan Guarantees (249 – 262)**	**Yes, No, or N/A**	**Explanation**
257. However, if a loan guarantee liability is the result of both positive and negative amounts of the various components, is the total shown as a liability, and are the negative components (of the loan guarantee liability) disclosed? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 23)		
A "modification" is a federal government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans or the liability of loan guarantees. (SFFAS 2, par. 41) *Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. (SFFAS 2, par. 42)* *Indirect modifications are actions that change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or guarantees is administered. (SFFAS 2, par. 43)*		
258. When post-1991 loan guarantees are modified, is the existing book value of the related liability changed to an amount equal to the present value[13] of net cash outflows that are projected under the modified terms from the time of the modification to the loan's maturity? (SFFAS 2, par. 50 & app. B, part III D(4); SFFAS 19, par. 7(d))		

[13] That is, discounted at the Treasury rate in effect when the guaranteed loans were first disbursed after adjusting for the interest rate reestimate.

Section III Balance Sheet

Liabilities Liabilities for Loan Guarantees (249 – 262)	Yes, No, or N/A	Explanation
259. When pre-1992 loan guarantees are directly modified: a. Are they transferred from the liquidating account to a financing account? b. Is the existing book value of the liability of the modified loan guarantees changed to an amount equal to their post-modification liability (i.e., the present value of the net cash outflows under post-modification terms discounted at the current Treasury rate)? (SFFAS 2, par. 51 & app. B, part IV B(4))		
260. If pre-1992 loan guarantees are indirectly modified: a. Are they kept in a liquidating account? b. Is the related liability reassessed and adjusted to reflect any change in the liability resulting from the modification? (SFFAS 2, par. 51)		
261. Are subsequent modifications of pre-1992 loan guarantees treated as a modification of post-1991 loan guarantees? (SFFAS 2, par. 51)		
262. If a post-1991 or pre-1992 loan is sold with a recourse provision, is the present value (discounted at the Treasury rate in effect at the time of the sale) of the estimated losses recognized as a subsidy expense and loan guarantee liability? (SFFAS 2, par. 53 & 54 & app. B, part I F(3))		

Section III Balance Sheet

Liabilities **Lease Liabilities (263 – 266)**	**Yes, No, or N/A**	**Explanation**
Capital leases are leases that transfer substantially all of the benefits and risks of ownership to the lessee. (SFFAS 5, par. 43)		
263. Is the amount recorded by the lessee as a liability under a capital lease arrangement the lesser of the following amounts? a. the present value of rental and other minimum lease payments (excluding executory costs) during the lease term b. the fair value[14] of the property at the inception of the lease (SFFAS 5, par. 43 & 44)		
264. Does the entity use the applicable Treasury borrowing rate to determine the interest rate charged on a capital lease unless the following apply? a. It is practicable for the lessee to learn the implicit rate computed by the lessor. b. The implicit rate is less than the Treasury borrowing rate. (SFFAS 5, par. 45)		
265. During the lease term is each minimum payment allocated between a reduction of the obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability? (SFFAS 5, par. 46)		

[14] Fair value is the price for which an asset could be bought or sold in an arm's-length transaction between unrelated parties. Roman L. Well and Patrick C. O'Brien, *Accounting: The Language of Business*, 9th ed. (Sun Lakes, Arizona: Thomas Horton and Daughters, 1994).

Section III Balance Sheet

Liabilities **Lease Liabilities (263 – 266)**	**Yes, No, or N/A**	**Explanation**
266. Does the entity disclose in a note to the statements the following information about its capital leases? a. gross amounts of assets under capital lease by major asset category b. a description of the lease arrangements, for example: future funding commitments, lease terms, renewal options, escalation clauses, restrictions, and amortization periods c. future payments due, by major asset category, and deductions for imputed interest and executory costs for all noncancellable leases with terms longer than 1 year d. a breakout of portions of the capital lease liability covered by budgetary resources and not covered by budgetary resources (OMB Bull. 97-01 as amended (Jan. 7, 2000), note 12, pp. 67 & 69, item A)		

Section III Balance Sheet

Liabilities **Federal Debt and Related Interest (267 – 278)**	**Yes, No, or N/A**	**Explanation**
Debts are amounts borrowed from the Treasury, the Federal Financing Bank, other federal agencies, or the public under general or special financing authority such as Treasury bills, notes, bonds, and FHA debentures. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 23)		
267. Does the entity accounting for federal debt identify the amount of the outstanding debt liability at any given time and the related interest cost for each accounting period? (SFFAS 5, par. 48)		
268. Are fixed-value securities with known redemption or maturity amounts valued at their original face (par) value net of any unamortized discount or premium? (SFFAS 5, par. 50)		
The straight-line method for amortizing a bond premium or discount reduces it in equal amounts over the life of the bond. (A.N. Mosch and E. John Larsen, Intermediate Accounting, McGraw-Hill Book Company, fifth edition 1982, p. 612.) *The interest method for amortizing a bond premium or discount reduces the discount or premium by the difference between the effective interest and stated interest on the bond. (SFFAS 1, app. B)*		
269. Is either the straight line or interest method of discount or premium amortization used if the following conditions are met? a. The short-term securities have a maturity of 1 year or less. b. In the case of longer-term securities, the difference between the amount of amortization under the interest and straight-line methods is immaterial. (SFFAS 5, par. 50)		

Section III Balance Sheet

Liabilities Federal Debt and Related Interest (267 – 278)	Yes, No, or N/A	Explanation
270. Is the interest method used for amortizing any discount or premium if the conditions listed in the previous question are not met? (SFFAS 5, par. 51)		
271. If the entity has issued variable value securities of unknown redemption or maturity values, are they appraised at their original value and periodically revalued on the basis of the regulations or offering language? (SFFAS 5, par. 52)		
272. Are old currencies issued by the federal government and not yet redeemed or written off identified as a federal debt liability at face value? (SFFAS 5, par. 55)		
273. Are the beginning balance, net borrowing, and ending balances of debt disclosed? (SFFAS 5, par. 48; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 10, p. 63)		
274. Are the following categories of debt disclosed? a. total public debt (reported by the Treasury Department only) broken out by debt b. total agency debt issued under special financing authority (e.g., FHA debentures and TVA bonds) broken out by debt held by the government accounts and debt held by the public c. other debt broken out by debt owed to the Treasury, debt owed to the Federal Financing Bank, and debt owed to other federal agencies (OMB Bull. 97-01 as amended (Jan. 7, 2000), note 10, pp. 63 & 64)		

Section III Balance Sheet

Liabilities **Federal Debt and Related Interest (267 – 278)**	Yes, No, or N/A	Explanation
275. Is all debt owed to Treasury, the Federal Financing Bank, or other federal agencies reported under intragovernmental liabilities and disclosed as intragovernmental debt? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 16 & note 10, pp. 63 & 64)		
276. Is all debt owed to the public reported and disclosed as such? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 16 & note 10, pp. 63 & 64)		
277. Are the names of the agencies disclosed, other than Treasury or Federal Financing Bank, to which intragovernmental debt is owed, and are the amounts disclosed? (OMB Bull. 97-01 as amended (Jan. 7, 2000), note 10, p. 64)		
278. Is other information relative to debt disclosed (e.g., maturity dates, redemption or call of debt owed to the public before maturity dates, write-offs of debts owed to Treasury or the Federal Financing Bank)? (OMB Bull. 97-01 as amended (Jan. 7, 2000), note 10, p. 64)		

Section III Balance Sheet

Liabilities **Pensions, Other Retirement Benefits, and Postemployment Benefits (279 - 287)**	**Yes, No, or N/A**	**Explanation**
Federal employee and veterans benefits include the actuarial portion of pensions, other retirement benefits, and other postemployment benefits. They do not include liabilities related to ongoing continuous expenses such as employees' accrued salary, accrued annual leave, unpaid portions of employee benefits, and other benefits that are currently due. These items are reported under the "other liabilities" line item. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 23) *In the context of accounting for pensions, other retirement benefits (ORB), and other postemployment benefits, the "administrative entity" manages and accounts for the pension or other employee plan, while the "employer entity" employs federal workers and generates employee costs, for which it would typically receive a salary and expense appropriation. (SFFAS 5, par. 57, footnote 38)* *The "aggregate entry age normal" actuarial cost method is one under which the expenses or liabilities arising from the actuarial present value of projected pension benefits are allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages. The portion of the actuarial present value allocated to a valuation year is called "normal cost." (SFFAS 5, par. 64)*		
279. Is the aggregate entry age normal actuarial cost method used to calculate, for the administrative entity financial statements, the liabilities arising from pension and ORB expenses? (SFFAS 5, par. 64 & 82)		
280. If other actuarial cost methods are used, does the entity provide an explanation? (SFFAS 5, par. 64)		
281. Does the administrative entity report pension and ORB assets separately from liabilities as opposed to netting them out? (SFFAS 5, par. 68 & 85)		

Section III Balance Sheet

Liabilities **Pensions, Other Retirement Benefits, and Postemployment Benefits (279 - 287)**	**Yes, No, or N/A**	**Explanation**
282. Does the administrative entity carry pension and ORB assets at their acquisition cost, adjusted for amortization, if appropriate? (SFFAS 5, par. 68 & 85)		
283. Does the administrative entity disclose the market value of pension and ORB investments in market-based and marketable securities? (SFFAS 5, par. 68 & 85)		
284. Does the employer entity recognize the long-term other postemployment benefits liability as the present value of future payments discounted at the Treasury borrowing rate for securities of similar maturity? (SFFAS 5, par. 95)		
285. Does the administrative entity disclose and report separately the liabilities arising from pensions, other retirement benefits, and other postemployment benefits that are covered by budgetary resources and the liabilities that are not covered by budgetary resources? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 23 & note 13, p. 70)		
286. Does the administrative entity disclose the assumptions used to calculate the liability for pensions, other retirement benefits, and other postemployment benefits? (SFFAS 5, par. 67 & 83; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 13, p. 70)		

Section III Balance Sheet

Liabilities **Pensions, Other Retirement Benefits, and Postemployment Benefits (279 - 287)**	**Yes, No, or N/A**	**Explanation**
287. If the assumptions for a pension plan differ from the assumptions used by the three primary plans — Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), and Military Retirement System (MRS) — does the administrative entity disclose how and why the assumptions differ from those of the primary plans? (SFFAS 5, par. 67; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 13, p. 70)		

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
Unless they are reported separately, other liabilities cover liabilities not recognized in other categories. They include, but are not limited to: capital leases, insurance, advances and prepayments, deposit funds held in escrowand accrued liabilities and liabilities for losses, claims, and other contingencies. Claims and other contingencies include: indemnity agreements, adjudicated claims, commitments to international institutions, and clean-up costs. (SFFAS 1, par. 83 – 86; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		
288. Do all federal insurance and guarantee programs (except social insurance and loan guarantee programs) recognize a liability for unpaid claims incurred resulting from insured events that have occurred as of the reporting date? (SFFAS 5, par. 104; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		
289. Do federal insurance programs accrue a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and when the following conditions apply? a. The uncertainty will be resolved when one or more probable future events occur or fail to occur. b. Future outflow or other sacrifice of resources is probable and measurable. (SFFAS 5, par. 104 & 108; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		
290. When insurance payments and losses extend beyond the current year, are net losses calculated on a present-value basis to reflect the time value of money? (SFFAS 5, par. 109)		

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
291. Does the entity report under "required supplementary stewardship information" (RSSI) the major assumptions and "risks assumed" (i.e., the present value of unpaid losses net of associated premiums based on risk inherent in the insurance or guarantee coverage) for all sponsored insurance programs (except for social insurance, life insurance, and loan guarantee programs)? (SFFAS 5, par. 105, 106, & 109)		
292. Does the entity also report under RSSI the indicators of the range of uncertainty around insurance-related estimates and sensitivity of the estimates to changes in major assumptions? (SFFAS 5, par. 114)		
The liability for future policy benefits is the present value of future outflows to be paid to (or on behalf of) policyholders, less the present value of future related premiums. In general, for whole life policies, the liability for future policy benefits should be no less than the cash surrender value that accrues to the benefit of the policyholder. (SFFAS 5, par. 116)		
293. Does the entity also recognize a liability for future insurance policy benefits (such as death or disability)? (SFFAS 5, par. 104; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		

Section III Balance Sheet

Liabilities Other Liabilities (288 – 318)	Yes, No, or N/A	Explanation
294. Are liabilities for future benefits of whole life insurance policies reported and disclosed in accordance with private sector standards (i.e., FASB SFAS 60, 97, & 120; AICPA SOP 95-1)? (SFFAS 5, par. 117 & 191 – 193; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 14, p. 70)		
295. Does the liability for future benefits relating to participating life insurance contracts equal the sum of the following amounts? a. the net-level premium reserve for death and endowment policy benefits b. liability for terminal dividends and c. any premium deficiency[15] (SFFAS 5, par. 118 & 120)		
296. Has the entity made an assessment to compare the liability for future policy benefits using actuarial assumptions applicable at the time the contract was made (contract assumptions) with the liability for future policy benefits using assumptions that consider the following factors? a. current economic conditions (i.e., current and expected investments and expected long-term yields) b. experience (i.e., mortality, morbidity, and termination rates) (SFFAS 5, par. 119)		

[15] A premium deficiency occurs if the liability for future policy benefits using current conditions exceeds the liability for future policy benefits.

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
297. Does the entity disclose the components[16] of the liability for future policy benefits of whole life insurance contracts along with a description of each amount and explanation of its projected use? (SFFAS 5, par. 121; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 14, p. 70)		
298. Does the reporting entity disclose and break out the following items? a. the portion of other liabilities covered by budgetary resources and the portion not covered by budgetary resources b. the portion of other liabilities payable to governmental (i.e., federal) entities and the portion payable to nonfederal entities c. the portion of other liabilities that are noncurrent and the portion that are current (SFFAS 1, par. 83 - 86; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 24 & note 11, pp. 65 & 66)		
299. Does the agency record "unearned revenue" as a liability if it requests advances or progress payments prior to receipt of cash, and does it record the amounts? (SFFAS 7, par. 37)		
300. Are amounts payable for refunds, refund offsets,[17] and drawbacks[18] recognized as liabilities when measurable and legally payable under established processes of the collecting entity? (SFFAS 7, par. 57 & app. E)		

[16] That is, the net-level premium reserve for a death and endowment policy and the liability for terminal dividends.
[17] Amounts withheld from refunds on behalf of other agencies.
[18] Refunds payable on duties paid on imported goods that are subsequently exported or destroyed.

Section III Balance Sheet

Liabilities Other Liabilities (288 – 318)	Yes, No, or N/A	Explanation
301. Do amounts payable for refunds include refund claims filed by the taxpayer in which the government has determined the amount payable and identified the payee? (SFFAS 7, par. 57)		
302. Are filed claims for refunds, even if reasonably estimable, excluded from payables if administrative actions have not been completed as of the close of the reporting period? (SFFAS 7, par. 58.A)		
303. Are unasserted claims for refunds, even if reasonably estimable, excluded from payables? (SFFAS 7, par. 58.B)		
304. Are voluntarily made deposits pending settlements and judgments separately recognized as deposit liabilities? (SFFAS 7, par. 59)		

Section III Balance Sheet

Liabilities Other Liabilities (288 – 318)	Yes, No, or N/A	Explanation
A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. (SFFAS 5, par. 35; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24 & note 16, p. 71)		
305. Does the entity recognize estimated losses for claims or other contingencies if the following conditions apply? a. A past event or exchange transaction has occurred. b. A future outflow or other sacrifice of resources is probable.[19] c. The future outflow or sacrifice of resources is measurable. (SFFAS 5, par. 33 & 38; SFFAS 12, par. 10 & 11; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		
306. If any one of the conditions for recognizing a contingent liability are not met and there is at least a "reasonable possibility"[20] that a loss or additional loss may be incurred, does the entity disclose the nature of the contingency and the following? a. an estimate of the possible liability b. an estimate of the range of the possible liability c. a statement that such an estimate cannot be made (SFFAS 5, par. 36, 38, 40, & 41)		

[19] In the context of pending or threatened litigation, "probable" is taken to mean "likely;" otherwise, "probable" refers to that which is believed to be more "likely than not" or can be reasonably expected.

[20] That is, the chance of a future event occurring is less than "probable" but more than "remote."

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
307. If no amount within the range of possible liabilities is a better estimate than any other amount: a. Is the minimum amount in the range of possible liabilities recognized? b. Is the range and a description of the nature of the contingency disclosed? (SFFAS 5, par. 39)		
308. If information about remote contingencies, or related to remote contingencies, is included in general-purpose federal financial reports,[21] is the information labeled to avoid the misleading implication that there is more than a remote chance of a loss of that amount? (SFFAS 5, par. 42)		
309. If material, does the entity separately disclose a contingent liability for environmental clean-up costs[22] for PP&E if the following criteria apply? a. They are related to a past transaction or event. b. The related costs are probable and measurable. (SFFAS 5, par. 38 & SFFAS 6, par. 91 - 93; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		
310. When clean-up costs are paid, are the payments recognized as a reduction in the liability for clean-up costs? (SFFAS 6, par. 100)		

[21] For example, the total face amount of insurance and guarantees in force.
[22] Clean-up costs are the costs of removing, containing, or disposing of hazardous waste or material and/or property that consists of hazardous waste *or* permanent or temporary closure of associated PP& E. (SFFAS 6, par. 85)

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
311. If clean-up costs have not been previously recognized, is a liability recognized for the portion of the estimated total clean-up cost that is attributable to either the portion of the physical capacity used or the portion of the estimated useful life that has passed, since the PP&E was placed into service? (SFFAS 6, par. 104)		
312. When clean-up costs are recognized for the first time, is the offsetting charge for any liability for clean-up costs shown as a "prior-period adjustment?" (SFFAS 6, par. 105)		
313. Are the amounts of prior-period adjustments arising from belated recognition of clean-up costs and liabilities disclosed and, if possible, associated with current and prior periods? (SFFAS 6, par. 105)		
314. Are any subsequent changes (made in periods following implementation) in estimated total clean-up cost immediately expensed (if costs are to be recovered though user charges) and reflected in the related liability balance? (SFFAS 6, par. 104)		

Section III Balance Sheet

Liabilities Other Liabilities (288 – 318)	Yes, No, or N/A	Explanation
315. Does the entity also disclose the following information? a. the sources (i.e., applicable laws and regulations) of clean-up requirements b. the method for assigning estimated total clean-up costs to current operating periods (e.g., physical capacity versus passage of time) c. the unrecognized portion of estimated total clean-up costs associated with general PP&E d. the material changes in total estimated clean-up costs due to changes in laws, technology, or plans e. the portion of change in an estimate that relates to prior-period operations f. the nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations (SFFAS 6, par. 107 - 111)		
Social insurance programs provide for the maintenance and distribution of incomes and medical benefits during periods of unemployment, disability, and retirement. These programs are Social Security, Medicare, and Railroad Retirement Benefits, Black Lung Benefits, and Unemployment Insurance. Expense and liability recognition for these programs is the same for both the consolidated governmentwide entity as for the component entities. (SFFAS 17, par. 2, 4, 14, & 30)		
316. Does the entity recognize a liability for social insurance benefits due and payable including claims incurred but not reported? (SFFAS 17, par. 22, 59 – 63, & 113)		

Section III Balance Sheet

Liabilities **Other Liabilities (288 – 318)**	**Yes, No, or N/A**	**Explanation**
317. Does the liability for unemployment insurance include the following amounts? a. amounts due to states and territories for benefits they have paid to beneficiaries but for which they have not withdrawn funds from the federal unemployment trust fund (UTF) as of the fiscal year-end b. estimated amounts to be withdrawn from UTF and benefits paid by states and territories after fiscal year-end for compensatory days occurring prior to fiscal year-end (SFFAS 17, par. 23)		
318. Does the entity separately report items within other liabilities if the amounts are material? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 24)		

Section III Balance Sheet

Net Position **Unexpended Appropriations & Cumulative Results of Operations (319 – 322)**	**Yes, No, or N/A**	**Explanation**
319. Does the line item "unexpended appropriations" include both the portion of the entity's appropriation represented by undelivered orders and unobligated balances? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 25)		
320. Does the entity break out and disclose the portion of unexpended appropriations represented by undelivered orders and unobligated amounts? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 71, note 15)		
321. Does the entity disclose its estimate of obligations related to cancelled appropriations for which it has a contractual commitment for payment? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 71, note 16)		
322. Does the line item "cumulative results of operations" include the following items? a. the net results of operations since inception b. the cumulative amount of prior-period adjustments c. the cumulative amount of donations and transfers of assets in and out of the entity's control (i.e., constructive ownership) without reimbursement d. the cumulative amounts related to investment in capitalized assets, such as PP&E (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 25)		

Section IV Statement of Net Cost

The questions related to the Statement of Net Cost are presented under three general captions and 12 line items. The question numbers related to each caption and line item follow.

	Question Numbers
Cost Accounting in General	
1. Overall Requirements	1 - 16
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3. Full Cost	22 - 30
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7. Inventory, Materials, Supplies, and Commodities	95 - 103
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Section IV Statement of Net Cost

Cost Accounting in General Overall Requirements (1 – 16)	**Yes, No, or N/A**	**Explanation**
The Statement of Net Cost is designed to show separately the components of the net cost of the reporting entity's operations for the period. The statement and any related supporting schedules classify revenue and cost information by suborganization or responsibility segment. (OMB Bull. 97-01 as amended (Jan.7, 2000) , p. 27) *Information presented in the Statement of Net Costs mostly depends on the agency properly implementing SFFAS No. 4, Managerial Cost Accounting Standards for the Federal Government. SFFAS No. 4 essentially defines how costs are determined and provides guidance for defining and structuring responsibility segments. (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 27)* *Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives. (SFFAS 4, par. 42)* *A cost accounting "system" is a continual and systematic cost accounting process that may be designed to accumulate and assign costs to a variety of objects routinely or as desired by management. (SFFAS 4, par. 74)* *Cost finding is a method for determining the cost of producing goods or services using appropriate procedures, for example, special cost studies or analyses. (SFFAS 4, par. 76)*		
1. Is the classification of suborganization and major programs for which costs are reported consistent with the entity's mission and outputs? (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 27)		
2. Are net costs reported for the entity as a whole and for specific suborganizations and major programs? (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 27)		

Section IV Statement of Net Cost

Cost Accounting in General Overall Requirements (1 – 16)	**Yes, No, or N/A**	**Explanation**
3. Does the Statement of Net Costs include a combined total column? (OMB Bull. 97-01 as amended (Jan.7, 2000), pp. 26 & 28)		
4. Does the combined total column include a note alerting readers that the combined statement of financing or equivalent schedules do not include intra-agency eliminations? (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 28)		
5. Are the costs related to the production of goods and services provided to other programs reported separately from the costs of goods, services, transfers, and grants provided to the public? (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 28)		
6. Are costs that cannot be directly traced, assigned on a cause-and-effect basis, or reasonably allocated to segments and their outputs and programs reported on the Statement of Net Cost as “Costs not assigned to programs?” (OMB 97-01, pp. 26 & 29; SFFAS 7 Imple. Guide, par. 32)		
7. Is earned revenue that is insignificant or cannot be attributed to particular outputs or programs reported separately as a deduction in arriving at the net cost of operations of the suborganization or reporting entity as a whole? (OMB 97-01 as amended (Jan.7, 2000), pp. 26 & 29)		
8. Does the reporting entity regularly accumulate and report the costs of its activities either by means of cost accounting systems or cost finding techniques? (SFFAS 4, par. 70)		

Section IV Statement of Net Cost

Cost Accounting in General Overall Requirements (1 – 16)	**Yes, No, or N/A**	**Explanation**
9. Has the entity established appropriate procedures and practices to enable the consistent and regular collection, measurement, accumulation, analysis, interpretation, and communication of cost information? (SFFAS 4, par. 68 & 70)		
10. Does the cost accounting data collected by the entity provide information needed to determine and report service efforts, accomplishments, and information required by the Government Performance and Results Act of 1993 (GPRA)? (SFFAS 4, par. 69)		
11. In general, does the reporting entity use a cost accounting system or cost finding technique that can perform at least a certain minimum level of cost accounting as well as provide basic cost information necessary to accomplish the objectives associated with planning, decision-making, control, and reporting? (SFFAS 4, par. 71)		

Section IV Statement of Net Cost

Cost Accounting in General Overall Requirements (1 – 16)	**Yes, No, or N/A**	**Explanation**
12. Specifically, does the reporting entity's cost accounting system or cost finding technique, at a minimum, do the following? a. Collect cost information by responsibility segments, which have been identified by management. b. Define outputs for each responsibility segment. c. Measure the full cost (including the cost of goods or services provided by other entities) of outputs so that total operational costs and total unit costs of outputs can be determined. d. Use a costing methodology (e.g., activity-based, job order, and standard costing) that is appropriate for management's needs and the operating environment. e. Provide information needed to determine and report service efforts, accomplishments, and information necessary to meet the requirements of GPRA (or interface with a system that provides such information). f. Rely on the Standard General Ledger as a basis for integrating its cost information with its general financial accounting capability. g. Supply cost data precise enough to provide reliable and useful information to internal and external users in making evaluations or decisions. h. Accommodate management's special cost information needs. (SFFAS 4, par. 71)		
13. Are all cost accounting activities, processes, and procedures documented? (SFFAS 4, par. 71)		

Section IV Statement of Net Cost

Cost Accounting in General Overall Requirements (1 – 16)	**Yes, No, or N/A**	**Explanation**
14. In determining the appropriate detail for its cost accounting processes and procedures, has the reporting entity considered the following? a. nature of its operations b. the precision desired and needed in cost information c. the practicality of data collection and processing d. the availability of electronic data-handling facilities e. the cost of installing, operating, and maintaining the cost accounting processes f. any specific information needs of management (SFFAS 4, par. 72)		
15. Has the entity used similar or compatible cost accounting processes throughout its component units? (SFFAS 4, par. 73)		
16. Does the entity provide appropriate variations of the Statement of Net Cost based on the types of programs that it carries out and OMB guidance? (SFFAS 7 Imple. Guide, par. 33; OMB Bull. 97-01 as amended (Jan.7, 2000), pp. 28 & 30)		

Section IV Statement of Net Cost

Cost Accounting in General Responsibility Segments (17 – 21)	**Yes, No, or N/A**	**Explanation**
A responsibility segment is a component of a reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services. (SFFAS 4, par. 78)		
17. Has the management of the reporting entity defined and established, as needed, responsibility segments to perform managerial cost accounting functions? (SFFAS 4, par. 77)		
18. Does management designate or establish responsibility segments based on the following? a. the entity's organization structure b. its lines of responsibility and missions c. its output of goods and services d. budget accounts and funding authorities (SFFAS 4, par. 86)		
19. For each responsibility segment, can the entity do the following? a. Define and accumulate outputs and, if feasible, quantify each type of output in units. b. Accumulate costs and quantitative units of resources consumed in producing the outputs. c. Assign costs to outputs and calculate the cost per unit of each type of output, if possible. d. Establish lower level cost centers, as needed. (SFFAS 4, par. 79 & 88)		

Section IV Statement of Net Cost

Cost Accounting in General Responsibility Segments (17 – 21)	**Yes, No, or N/A**	**Explanation**
20. Does the reporting entity include supporting schedules in the Notes to the Financial Statements if the suborganization's summary information provided in the Statement of Net Cost does not fully display the suborganization's major programs and activities? (OMB Bull. 97-01 as amended (Jan.7, 2000), pp. 71 & 72)		
21. Does the reporting entity disclose gross cost and earned revenue[1], by budget functional classification? (OMB Bull. 97-01 as amended (Jan.7, 2000), p. 73)		

[1] Gross cost and earned revenue is net of intra-agency transactions (consolidated).

Section IV Statement of Net Cost

Cost Accounting in General **Full Cost (22 - 30)**	**Yes, No, or N/A**	**Explanation**
Full cost is the sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources. (SFFAS 4, app. B) *Cost object (or cost objective) is an activity, output, or item whose cost is to be measured — or in a broad sense, an organizational division, function, task, product, service, or customer. (SFFAS 4, app. B)* *Direct costs are costs that can be specifically identified with an output. (SFFAS 4, par. 89)* *Indirect costs are costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs. (SFFAS 4, par. 91)* *Output is any product or service generated from the consumption of resources. (SFFAS 4, par. 89)*		
22. Does the reporting entity report include all direct costs in the full cost of outputs? (SFFAS 4, par. 89 & 90)		
23. Does the reporting entity also include the following? a. indirect costs incurred within a responsibility segment b. the costs of support services that a responsibility segment receives from other segments and entities (SFFAS 4, par. 91, 122, & 123)		

Section IV Statement of Net Cost

Cost Accounting in General **Full Cost (22 - 30)**	**Yes, No, or N/A**	**Explanation**
24. Are those general management and administrative support costs that cannot be traced, assigned, or allocated to responsibility segments and outputs identified and reported as costs not assigned to programs? (SFFAS 4, par. 92)		
25. Are the costs of employee benefits[2] included as part of the cost of outputs? (SFFAS 4, par. 93 - 96)		
26. Are other postemployment benefits reported as expenses for the period during which a future outflow or other sacrifice of resources is probable and measurable on the basis of an event occurring on or before the accounting date? (SFFAS 4, par. 96 - 97)		
27. Are the costs of transfer payments for welfare, insurance, grants, and other public assistance programs and the costs of operating those programs separately identified? (SFFAS 4, par. 98 - 101; OMB Bull. 97-01 as amended (Jan.7, 2000), pp. 28 & 72)		
28. Are incurred depreciation expenses included in the full costs of outputs that the segment produces? (SFFAS 4, par. 102)		
29. Are the costs of acquiring or constructing national defense PP&E and heritage PP&E treated as a program cost or period expense but excluded from the full cost of outputs? (SFFAS 4, par. 103; SFFAS 11, par. 7)		

[2] These include insurance, pensions, and other retirement benefits but not other postemployment benefits.

Section IV Statement of Net Cost

Cost Accounting in General **Full Cost (22 - 30)**	**Yes, No, or N/A**	**Explanation**
30. Are other nonproduction costs, such as reorganization costs and nonrecurring clean-up costs resulting from facility abandonment, also excluded from the full cost of outputs and treated as current-period expenses? (SFFAS 4, par. 104)		

Section IV Statement of Net Cost

Cost Accounting in General Interentity Costs (31 - 36)	**Yes, No, or NA**	**Explanation**
Within the federal government, some reporting entities rely on other federal entities to help them achieve their missions. Often, this involves providing goods or services, with or without reimbursement. The reporting entity generally must account for the full cost of goods or services provided to or received from other federal entities. (SFFAS 4, par. 105 - 106)		
31. Does the reporting entity include in its Statement of Net Cost the full costs of goods and services received from other federal entities? (SFFAS 4, par. 105)		
32. Does the entity providing goods or services to another reporting entity recognize in its accounting records, as well as disclose to the receiving entity, the full cost of goods and services provided? (SFFAS 4, par. 108; OMB Bull. 97-01 as amended (Jan. 7, 2000) , pp. 26 & 28)		
33. Is recognition of interentity costs that are not fully reimbursed limited to material items that have the following attributes? a. are significant to the receiving entity b. form an integral or necessary part of the receiving entity's output c. can be identified or matched to the receiving entity with reasonable precision (SFFAS 4, par. 105 & 112)		

Section IV Statement of Net Cost

Cost Accounting in General Interentity Costs (31 - 36)	**Yes, No, or NA**	**Explanation**
34. Are the costs of broad, general support services provided by a federal entity to other federal entities excluded from the costs of the recipient entity unless such services are integral to the receiving entity (e.g., Treasury check-writing services provided for the Social Security Administration)? (SFFAS 4, par. 112)		
35. If the receiving entity can not get complete information on the full cost of goods or services provided by another reporting entity, does one of the following apply? a. The receiving entity uses a reasonable estimate of the cost. b. If an estimate of the cost cannot be made, the estimated market value of the received goods or services is used. (SFFAS 4, par. 109)		
36. Are interentity and intra-entity expenses and financing sources eliminated for any consolidated financial statements covering both entities? (SFFAS 4, par. 109)		

Section IV Statement of Net Cost

Cost Accounting in General Costing Methodology (37 - 45)	**Yes, No, or N/A**	**Explanation**
Entities are not required to use a particular costing system or costing methodology, but the costing system or methodology used should be appropriate to the entity's operating environment and used consistently. Four examples of acceptable (but not necessarily mutually exclusive) costing methodologies are activity-based costing, job order costing, process costing, and standard costing. (SFFAS 4, par. 144 - 162) *Cost accumulation is the process of collecting cost data in an organized way by responsibility segment. (SFFAS 4, par. 117)* *Cost assignment is a process that identifies accumulated costs with reporting periods and cost objects. Three methods of cost assignment are direct tracing, cause and effect, and allocation that is reasonable and consistent. (SFFAS 4, par. 120, 124 – 137, & app. E)* *Cost object or cost objective is an activity, output, or item the cost of which is to be measured. (SFFAS 4, par. 121 & app. E)*		
37. Is the entity's accounting system capable of identifying costs with responsibility segments? (SFFAS 4, par. 118)		
38. Are costs related to the production of goods and services provided to other programs (governmental) reported separately from the costs of goods, services, transfers, and grants provided to the public? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 26 & 28)		
39. Are costs related to the production of outputs reported separately from costs that are not related to the production outputs (i.e., nonproduction costs)? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 26 & 28)		

Section IV Statement of Net Cost

Cost Accounting in General Costing Methodology (37 - 45)	**Yes, No, or N/A**	**Explanation**
40. Are the costs of resources consumed by responsibility segments classified by type of resource, such as costs of employees, materials, capital, utilities, rent? (SFFAS 4, par. 119)		
41. Are data on the quantity of units (e.g., staff days, gallons of gasoline consumed) related to the various cost categories maintained, when appropriate and feasible? (SFFAS 4, par. 119)		
42. Are costs assigned to outputs using the methods in the following order of preference? a. directly tracing costs used in the production of an output, wherever feasible and economically practicable b. assigning costs on a cause-and-effect basis to, for example, cost pools c. allocating costs on a reasonable and consistent basis (SFFAS 4, par. 124)		
43. For cost allocation purposes, do indirect costs assigned to a given cost pool have similar characteristics? (SFFAS 4, par. 136)		
44. Are common costs assigned to activities either on a cause-and-effect basis, if feasible, or through reasonable allocations? (SFFAS 4, par. 139, 140, 142, & 143)		
45. Are the full costing methodologies that are most appropriate to a segment's operating environment used and followed consistently, and if improvements or refinements are made, are they documented and explained? (SFFAS 4, par. 145 & 146)		

Section IV Statement of Net Cost

Revenues (46 - 69)	**Yes, No, or N/A**	**Explanation**
Revenues are inflows of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. (SFFAS 7, par. 30) *Nonexchange revenues are inflows of resources that the government demands or receives by donation. Nonexchange revenues are primarily derived from the government's power to demand payments from the public (e.g., taxes, duties, fines). (SFFAS 7, par. 30 & 48)* *Exchange revenues and gains are inflows of resources to a government entity that the entity has earned. They are earned when each party to the transaction sacrifices value and receives value in return. (SFFAS 7, par. 30, 33 & app. C)* *The gross cost of a program consists of the full cost of the outputs produced by a program plus any nonproduction costs that can be assigned to the program (nonproduction costs are costs linked to events other than the production of goods and services). (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 27)* *The net cost of operations consists of gross cost less related exchange revenues (or in this context, the cost of the entity to the taxpayer). (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 27)*		
46. Are earned revenues deducted from the gross costs of suborganizations and programs if practical and possible and, if not, from the costs of the entity as a whole? (OMB Bull. 97-04 as amended (Jan. 7, 2000), p. 29)		

Section IV Statement of Net Cost

Revenues (46 - 69)	**Yes, No, or N/A**	**Explanation**
47. In its Statement of Net Costs, does the entity show the following? a. the gross cost of providing goods or services that earned exchange revenue b. exchange revenue earned c. the resulting difference between a and b to determine net costs (SFFAS 7, par. 43 & 120 - 125; SFFAS 7 Imple. Guide, par. 7, 8 & 42 - 47; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 26 & 27, 5th par.)		
48. Does the entity also break out the gross costs of providing goods, services, benefit payments, or grants that did not earn exchange revenue? (SFFAS 7, par. 43 & 120; SFFAS 7 Imple. Guide, par. 32, 33, & 41; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 27)		
49. Is the net amount of gains (or losses) subtracted from (or added to) the gross cost to determine net cost? (SFFAS 7, par. 44)		
50. If exchange (or earned) revenue is immaterial or cannot be associated with a particular output or program, is it reported separately, as appropriate, as a deduction in arriving at net cost of the program, suborganization, or reporting entity as a whole? (SFFAS 7, par. 44, SFFAS 7 Imple. Guide, par. 45.6; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 29)		
51. Are nonexchange revenues and other financing sources excluded from calculating net cost? (SFFAS 7, par. 44)		

Section IV Statement of Net Cost

Revenues (46 - 69)	**Yes, No, or N/A**	**Explanation**
52. If the entity incurs virtually no cost in connection with earning exchange revenue, is such revenue not recognized in the Statement of Net Cost, but shown as a financing source on the Statement of Changes in Net Position or (if appropriate) Statement of Custodial Activity? (SFFAS 7, par. 45.A & 140 – 146; SFFAS 7 Imple. Guide, par. 50 - 58)		
53. If the collecting entity transfers exchange revenue to a second entity, does the second entity follow similar revenue recognition (i.e., match revenues against actual costs unless no costs are incurred)? (SFFAS 7, par. 45.B)		
54. Is the full amount of exchange revenues reported regardless of whether the entity is permitted to retain the revenues? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 29, 1st par.)		

Section IV Statement of Net Cost

Revenues (46 - 69)	**Yes, No, or N/A**	**Explanation**
55. Does a reporting entity that provides goods or services to the public or other government entity disclose the following in a note or narrative? a. a pricing policy that differs from the full cost or market pricing guidance set forth in OMB Circular No. A-25 and the possible effect on demand and revenue if prices were raised to reflect the market or full cost b. prices set by law or executive order that are not based on full cost or market price and the possible effect on demand and revenue if prices were raised to reflect the market or full cost c. the nature of intragovernmental exchange transactions in which goods or services are provided free or at less than full cost and the reasons for disparities between billing and full cost d. the full amount of any expected loss when specific goods or services are provided or made to order under a contract and a loss is both probable and measurable (SFFAS 7, par. 46, 47, & 163 - 167)		
56. Is custodial collected nonexchange revenue, that is legally retained by the collecting entity as reimbursement for the cost of collection, recognized as exchange revenue in determining the collecting entity's net cost of operations? (SFFAS 7, par. 60.3)		

Section IV Statement of Net Cost

Revenues (46 - 69)	Yes, No, or N/A	Explanation
57. Is revenue received from the public or other government entity in return for providing goods or services recognized and reported in the Statement of Net Cost as earned or exchange revenue? (SFFAS 7, par. 34, 35, 36 (a) & (c), 270, & 271; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 29)		
58. Is exchange revenue broken out by major category and linked, where possible, to the net costs of related outputs, programs, organizations, or suborganizations in the Statement of Net Cost? (SFFAS 7, par. 43; SFFAS 7 Imple. Guide, par. 42 – 47; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 29)		
59. If an exchange transaction is likely to be unusual or nonrecurring for a particular entity, is a gain or loss recognized rather than a revenue or expense? (SFFAS 7, par. 35, 133, 238, 329 & 330)		
60. If specific goods or services are made to order under terms of a contract, is exchange revenue (and any probable loss or gain) recognized in proportion to costs of goods and services acquired to fulfill the contract? (SFFAS 7, par. 36(b))		
61. When goods are kept in inventory so that they are available to customers when ordered, is exchange revenue recognized when the goods are delivered to the customer? (SFFAS 7, par. 36(c))		
62. If services are rendered continually or the right to use an asset extends continually over time, is exchange revenue recognized in proportion to the passage of time or the use of the asset? (SFFAS 7, par. 36(d))		

Section IV Statement of Net Cost

Revenues (46 - 69)	**Yes, No, or N/A**	**Explanation**
63. Is interest received on intragovernmental loans recognized as exchange revenue if the source of borrowed funds is predominately exchange revenue? (SFFAS 7, par. 36(d) & 154 - 161)		
64. When an asset other than inventory is sold, is any gain (or loss) recognized when the asset is delivered to the purchaser? (SFFAS 7, par. 36(e))		
65. When advance fees or payments are received, such as for large-scale, long-term projects, is revenue recognized only as the cost of providing the corresponding goods and services? (SFFAS 7, par. 37 & 113 - 119)		
66. Is the measurement for revenue from exchange transactions based on the actual price received or receivable under established pricing arrangements? (SFFAS 7, par. 38)		
67. If the realization of the full amount of exchange revenue is not probable due to credit losses, is an expense recognized and is the allowance for bad debts increased? (SFFAS 7, par. 40)		
68. If recognized exchange revenue is not likely to be realized for reasons apart from credit losses (e.g., returns and allowances), is the probable amount recognized as a revenue adjustment? (SFFAS 7, par. 41 & 129)		
69. Is exchange revenue recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities? (SFFAS 7, par. 43)		

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. Required federal payments to social insurance plans (i.e., Social Security and Medicare) and matching federal payments to defined contribution pension plans are also considered to be plan expenses. (SFFAS 5, par. 61) *Costs of pensions and other retirement benefits (ORB), whether they are paid for in part or in total by other governmental entities, are included in the costs of program outputs. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 28)* *Recognition of other postemployment benefits (OPEB) is linked to the occurrence of an OPEB event rather than the production of an output. OPEB costs are generally treated as period expenses. Special-purpose cost studies may distribute OPEB costs over a number of prior years to determine the cost of outputs OPEB recipients helped produce. (SFFAS 4, par. 96 & 97)* *In accounting for pensions, (ORB), and OPEB, the "administrative entity" typically manages and accounts for the related assets and liabilities. The "employer entity" accounts for the related costs of pensions, ORB and OPEB. For these costs the employer entity receives a salary and expense appropriation, imputes a financing source, or both. (SFFAS 5, par. 57, footnote 38, & par. 78 & 93)* *The "aggregate entry age normal" actuarial cost method is one under which the expenses or liabilities arising from the actuarial present value of projected pension benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages. The portion of the actuarial present value of pension plan and benefits and expenses that is allocated to a valuation year is called* "normal cost" *(SFFAS 5, par. 64 & app. E)*		
70. Are pensions and ORB recognized as expenses at the time of employment? (SFFAS 5, par. 59)		

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
71. Is the "aggregate entry age normal" actuarial cost method (or other actuarial cost method, if the results are not materially different and an explanation is provided) used to calculate pension expense, the liability for the administrative entity financial statements, and the expense for the employer entity financial statements? (SFFAS 5, par. 64)		
72. When using the "aggregate entry age normal" actuarial cost method, does the entity allocate pension expenses on the basis of a level percentage of earnings? (SFFAS 5, par. 64)		
73. Does the administrative entity base its actuarial assumptions for pension plans on the experience of the covered groups, long-term trends, and guidance of the American Academy of Actuaries? (SFFAS 5, par. 65)		
74. Does the administrative entity base its interest rate assumptions on the estimated long-term investment yield for a pension plan or, if the plan is not being funded, on some other appropriate long-term assumption (e.g., the federal long-term borrowing rate)? (SFFAS 5, par. 66)		
75. Does the administrative entity disclose the assumptions used to calculate pension benefit expenses? (SFFAS 5, par. 67)		
76. When a new pension plan is initiated or current one amended, does the administrative entity immediately recognize all past service costs or gains as well as all actuarial gains and losses, without amortization? (SFFAS 5, par. 69 & 70)		

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
Normal cost or service cost is the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during an accounting period. (SFFAS 5, par. 74, footnote 45)		
77. Does the administrative entity disclose the following components of reported pension benefit expenses? a. normal cost b. interest on pension liability during the period c. prior service cost from plan amendments (or the initiation of a new plan) during the period, if any d. actuarial gains or losses during the period, if any (SFFAS 5, par. 71 & 72; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 13, p. 70)		
78. Does the administrative entity report pension plan revenue for the sum of contributions from the following entities? a. the employer b. its employees c. financing from the general fund to cover prior service or other costs for which contributions were not provided by the employer or employee d. interest on the plan's investments (SFFAS 5, par. 73 & 78)		
79. In the financial report, does the employer entity recognize a pension expense report that equals the service cost for its employees for the accounting period, less the amount contributed by the employees, if any? (SFFAS 5, par. 74, 77, & 78)		

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
80. Is the employer entity's pension expense balanced by either of the following? a. a decrease to its "fund balance with Treasury" for the amount of its contribution to the pension plan, if any b. an increase to an account representing an intragovernmental imputed financing source (e.g., "imputed financing - expenses paid by other agencies") (SFFAS 5, par. 75)		
81. If the employer entity is also the administrative entity, does it also report the liability[3] and recognize the expense for all components of the pension plan's cost? (SFFAS 5, par. 71 & 76)		
ORB includes all retirement benefits other than pension benefits. The predominant ORB in the federal government is retirement health benefits. (SFFAS 5, par. 58 & 79)		
82. Is the "aggregate entry age normal" actuarial cost method (or other actuarial cost method, if the results are not materially different and an explanation is provided) used to calculate the ORB expense and liability for the administrative entity financial statements and the expense for the employer entity financial statements? (SFFAS 5, par. 82 & 88)		
83. Are expenses and other liabilities attributable to ORB expenses allocated based on the service rendered by each employee? (SFFAS 5, par. 82 & 83)		

[3] This is the actuarial present value of all future benefits, based on projected salaries and total projected service, less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan.

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
84. Do the amounts calculated for financial reports prepared for ORB plans reflect the following? a. general actuarial and economic assumptions that are consistent with those used for pensions b. a health care cost trend assumption that is consistent with Medicare projections or other authoritative sources appropriate for the population covered by the plan (SFFAS 5, par. 83)		
85. Does the administrative entity discount the projected ORB costs at the rate of expected return of plan assets, if the plan is being funded, or on some other long-term assumptions (e.g., the long-term federal government borrowing rate) for unfunded plans? (SFFAS 5, par. 84)		
86. Does the administrative entity disclose the assumptions used to calculate projected ORB costs? (SFFAS 5, par. 83)		
87. Is the accrual period for ORB based on the expected retirement age rather than the age when the employee becomes eligible for pension benefits? (SFFAS 5, par. 84)		
88. When a new ORB plan is initiated or current one amended, does the administrative entity immediately recognize all past and prior service costs or gains as well as all actuarial gains and losses, without amortization? (SFFAS 5, par. 86 & 87)		

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
89. Does the administrative entity disclose the following components of reported ORB (e.g., health insurance) expenses? a. normal cost b. interest on the ORB liability during the period c. prior (and past) service cost from plan amendments (or the initiation of a new plan) during the period, if any d. any gains/losses due to a change in the medical inflation rate assumption e. other actuarial gains or losses during the period, if any (SFFAS 5, par. 88; OMB Bull. 97-01 as amended (Jan. 7, 2000), note 13, p. 70)		
90. Does the administrative entity report ORB revenue for the sum of contributions from the employer entity and its employees? (SFFAS 5, par. 89)		
91. Does the employer entity recognize ORB expenses on a per employee basis in its financial report as the net of normal cost and employee contributions? (SFFAS 5, par. 90 & 93)		
92. If the employer entity is also the administrative entity, does it also report the liability[4] and recognize the expense for all components of the pension plan's cost? (SFFAS 5, par. 88 & 92)		

[4] This is the actuarial present value of all future benefits less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan.

Section IV Statement of Net Cost

Costs **Pensions and Other Retirement and Postemployment Benefits (70 – 94)**	**Yes, No, or N/A**	**Explanation**
OPEB are provided to former or inactive employees, beneficiaries, and covered dependents outside pension or ORB plans. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, unemployment workers' compensation, and veterans' disability compensation benefits paid by the employer. (SFFAS 4, par. 96; SFFAS 5, par. 57)		
93. Are OPEB expenses recognized as an expense at the time the benefit is provided? (SFFAS 5, par. 59)		
94. Does the employer recognize an expense and a liability for OPEB - such as severance pay, training, and health care - when a future outflow or other sacrifice of resources is probable (i.e., more likely than not) and measurable? (SFFAS 5, par. 94 & 95)		

Section IV Statement of Net Cost

Costs **Inventory, Material, Supplies, and Commodities (95 – 103)**	**Yes, No, or N/A**	**Explanation**
95. Upon sale or use, is the cost of inventory expensed and removed from the inventory asset account? (SFFAS 3, par. 19)		
96. To arrive at the historical cost of ending inventory and cost of goods sold, is one of the following cost flow assumptions used? a. first-in, first-out b. weighted average c. moving average d. any other valuation method (such as a standard cost system) whose results reasonably approximate a, b, or c (SFFAS 3, par. 22)		
97. Are operating materials and supplies expensed using the consumption method (i.e., reported as an operating expense as they are issued to the end user for current operations)? (SFFAS 3, par. 38 & 39)		

Section IV Statement of Net Cost

Costs **Inventory, Material, Supplies, and Commodities (95 – 103)**	**Yes, No, or N/A**	**Explanation**
98. Are operating materials and supplies expensed upon purchase if they meet one of the following attributes? a. they are of insignificant amounts b. they are in the hands of the end user for use in normal operations c. it is cost effective to immediately expense rather than to capitalize (i.e., apply the purchase method rather than the consumption method of accounting) (SFFAS 3, par. 40 & 41)		
99. Are inventory and operating materials acquired through a nonmonetary exchange valued at the fair value of the items received at the time of the exchange, and is the difference between the fair value of the acquired items and the recorded amount surrendered reported as a gain or loss? (SFFAS 3, par. 21 & 43)		
100. Are abnormal costs associated with inventory and operating materials and supplies, such as excessive handling or rework costs, charged to operations of the period? (SFFAS 3, par. 21 & 43)		
101. Are any unrealized gains or losses, which are reflected in periodic inventory or operating materials and supplies revaluations, captured in a designated allowance account? (SFFAS 3, par. 17, 23 & 24)		

Section IV Statement of Net Cost

Costs **Inventory, Material, Supplies, and Commodities (95 – 103)**	**Yes, No, or N/A**	**Explanation**
102. Is the cost of stockpile materials removed from the corresponding asset account and reported as an operating expense when issued for use or sale? (SFFAS 3, par. 52)		
103. Are abnormal costs of stockpile materials, such as excessive handling and rework costs, expensed in current operations? (SFFAS 3, par. 53)		

Section IV Statement of Net Cost

Costs **Property, Plant, and Equipment (104 – 118)**	**Yes, No, or N/A**	**Explanation**
A common expense related to PP&E that is included in the Statement of Net Cost is depreciation. Other current expenses related to PP&E are all costs of acquiring and maintaining federal mission and heritage PP&E and stewardship land. (SFFAS 6, par. 35, 53, 61, & 69) *Depreciation expense is calculated through systematic and rational allocation of the cost of general PP&E, less its estimated salvage or residual value, over its estimated useful life. (GAO/AIMD-21.1.1 SFFAS 6, par. 35)*		
104. Is depreciation of general PP&E recognized as an expense of the period? (SFFAS 6, par. 35)		
105. If historical cost information has not been maintained for existing general PP&E, does the entity depreciate or amortize the estimated residual values over its remaining useful life in a systematic and rational manner? (SFFAS 6, par. 35, 40, & 41)		
106. In an exchange transaction with a nonfederal entity, is the difference between the book value (i.e., cost less accumulated depreciation) of general PP&E surrendered and the cost of PP&E acquired recognized as either a gain or a loss? (SFFAS 6, par. 32)		
107. In the event that cash consideration is included in the exchange, is the cost of general PP&E either increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received? (SFFAS 6, par. 32)		

Section IV Statement of Net Cost

Costs **Property, Plant, and Equipment (104 – 118)**	**Yes, No, or N/A**	**Explanation**
108. Is the expected net realizable value of a general PP&E asset that has been prematurely removed from service adjusted at the end of each accounting period, and is any adjustment made recognized as either a gain or loss? (SFFAS 6, par. 39)		
109. When assets have been removed from general PP&E in anticipation of disposal, retirement, or removal from service, has the entity stopped recording depreciation and amortization expenses for such assets? (SFFAS 6, par. 38)		
110. Is the cost of acquiring, constructing, improving, reconstructing, or renovating — as well as the cost incurred to bring national defense PP&E to its current condition and location — recognized as an expense on the Statement of Net Cost when incurred, and is this disclosed in the notes as a "cost of national defense PP&E?" (SFFAS 6, par. 53 & SFFAS 8, par. 65-67, & 119; SFFAS 11, par. 7 & 16; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 28 & 73, 1st par.)		
111. Are costs to acquire, improve, reconstruct, or renovate heritage assets, other than multiuse heritage assets, recognized on the Statement of Net Cost for the period in which the costs are incurred? (SFFAS 16, par. 8; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 28 & 73)		
112. Do the recognized costs of heritage assets also include all costs incurred during the period to bring the items to their current condition? (SFFAS 16, par. 8)		

Section IV Statement of Net Cost

Costs **Property, Plant, and Equipment (104 – 118)**	**Yes, No, or N/A**	**Explanation**
113. If the fair value of donated or bequeathed heritage assets is not known or reasonably estimable, is information as to the type and quantity of assets received disclosed? (SFFAS 16, par. 10; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 73, 2nd par.)		
114. Are costs to acquire, as well as costs incurred to bring the stewardship land to its current condition or intended use, recognized as a cost of the period incurred and disclosed as “Cost of Stewardship Land?” (SFFAS 6, par. 69 & 73; SFFAS 8, par. 77 & 119; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 29, 4th par. & 73, 1st par.)		
115. Is the fair value, if known and material, of stewardship land acquired through donation or devise disclosed in notes to the Statement of Net Cost? (SFFAS 6, par. 71; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 73, 2nd par.)		
116. If the fair value of donated or willed stewardship land is not estimable, is information as to the type and quantity of assets received disclosed in notes to the Statement of Net Cost, if material? (SFFAS 6, par. 71; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 73, 2nd par.)		
117. If land included in general PP&E is transferred to another federal entity to be used as stewardship land, is the cost to the receiving entity of the transferred land recognized at the book value on the transferring entity’s books? (SFFAS 6, par. 72)		
118. If the receiving entity does not know the book value of the transferred land, is the transfer disclosed in the notes to the Statement of Net Cost, if material? (SFFAS 6, par. 72)		

Section IV Statement of Net Cost

Costs **Clean-up Costs (119 – 127)**	**Yes, No, or N/A**	**Explanation**
Clean-up costs are the costs of removing, containing, or disposing of (1) hazardous waste from property or (2) material or property that consists of hazardous waste upon permanent or temporary closure or shutdown of associated PP&E. Clean-up costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs (SFFAS 6, par. 85 & 87)		
119. When general PP&E is placed into service, does the entity estimate the associated clean-up costs? (SFFAS 6, par. 94)		
120. In estimating clean-up costs and liability, has the entity considered the following? a. the level of restoration to be performed b. current legal and regulatory requirements c. current technology d. current costs (i.e., the costs of acquiring during the current period all goods and services included in the clean-up estimate) (SFFAS 6, par. 95)		
121. Are estimated clean-up costs periodically revised to account for material changes due to inflation or deflation and changes in regulations, plans, or technology? (SFFAS 6, par. 96 & 189)		

Section IV Statement of Net Cost

Costs **Clean-up Costs (119 – 127)**	**Yes, No, or N/A**	**Explanation**
122. When general PP&E is placed into service, does the entity do the following? a. estimate and disclose total clean-up costs b. apportion clean-up costs over the useful life of the asset in a rational and systematic manner, based on the physical capacity of the PP&E or, if physical capacity is not useful or estimable, on the estimated useful life c. begin expensing and accumulating a liability on a pro rata basis for unfunded clean-up expenses (SFFAS 6, par. 97-98, 186, 188, & 234-239)		
123. If clean-up costs are reestimated, are the cumulative changes related to current and past operations of general PP&E immediately recognized as an expense and is the corresponding liability adjusted? (SFFAS 6, par. 99 & 190)		
124. When stewardship PP&E is placed into service, does the entity expense the total estimated clean-up costs and establish a liability in the period the asset is placed into service? (SFFAS 6, par. 101)		
125. If clean-up costs for stewardship PP&E are reestimated, are any adjustments to the liability associated with clean-up costs expensed in the period of the change in estimate? (SFFAS 6, par. 102)		
126. Are payments for clean-up costs for stewardship PP&E recognized as a reduction in the liability for clean-up costs? (SFFAS 6, par. 103)		

Section IV Statement of Net Cost

Costs **Clean-up Costs (119 – 127)**	**Yes, No, or N/A**	**Explanation**
127. Does the entity disclose the following? a. the applicable laws and regulations covering clean-up requirements b. the method for assigning estimated total clean-up costs to current operating periods (e.g., physical capacity versus passage of time) c. the unrecognized portion of estimated total clean-up costs for clean-up costs associated with general PP&E d. material changes in total estimated clean-up costs due to changes in laws, technology, or plans, as well as the portion of the change in clean-up cost estimates that relate to prior-period operations e. the nature of estimates and information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations (SFFAS 6, par. 107 – 111: OMB Bull. 97-01 as amended (Jan. 7, 2000), p . 71, note 17)		

Section IV Statement of Net Cost

Costs **Interest (128 –129)**	**Yes, No, or N/A**	**Explanation**
Interest costs are generally related to securities and other debt instruments issued by the U.S. Treasury or other federal agencies. (SFFAS 5, par. 47 - 48)		
128. Does the related interest cost of federal debt include the following? a. the accrued (prorated) share of the nominal interest incurred during the accounting period b. the amortized discounts or premiums for each accounting period for fixed value securities c. the amount of change in the current value for the accounting period for variable value securities (SFFAS 5, par. 53)		
129. If securities are retired before maturity, is the difference between the reacquisition price and net carrying value recognized as a gain or loss? (SFFAS 5, par. 54)		

Section IV Statement of Net Cost

Costs **Insurance and Subsidies (130 –133)**	**Yes, No, or N/A**	**Explanation**
Federal insurance and guarantee programs are established to subsidize providing insurance to achieve social objectives or assume risks that private sector entities are unwilling or unable to assume. For life insurance, a premium deficiency occurs if the liability for future policy benefits using current conditions exceeds the liability for future policy benefits using contract conditions. (SFFAS 5, par. 97, 102, & 120)		
130. If an insured event has occurred as of the financial statement reporting date, has the federal entity recognized an expense and, if the claim has not been paid, a liability? (SFFAS 5, par. 104 & 109)		
131. Are changes in estimates of claims resulting from: (1) the present value calculations, (2) the continual review process, and (3) differences between the estimates and actual payments for claims, recognized as charges against operations of the period in which the estimates are changed or payments are made? (SFFAS 5, par. 109)		
132. If the liability for future [life insurance] policy benefits using current conditions exceeds the liability for future policy benefits under contract conditions (resulting in a premium deficiency), is the difference recognized as a change to operations in the current period? (SFFAS 5, par. 120)		
133. Does the entity recognize an expense for social insurance benefits paid during the reporting period plus any increase (or less any decrease) in the liability for social insurance from the end of the prior-period to the end of the current period? (SFFAS 17, par. 22 & 59)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
In accordance with the Credit Reform Act of 1990, a subsidy expense is recognized for direct or guaranteed loans disbursed during the fiscal year. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows. The discount rate used to calculate the present value is the average interest rate on marketable Treasury securities of similar maturity to the cash flows of the direct loan or loan guarantee for which the estimate is being made (SFFAS 2, par. 6, 7, 24, 30 & 31; SFFAS 19, par. 6, 7 (a) & (b))		
134. Are the following true of the present values of estimated net cash outflows resulting from the post-1991 direct or loan guarantee programs? a. They are discounted at the interest rate of marketable Treasury securities with similar maturities. b. They are recognized as expenses in the year the loan is disbursed. (SFFAS 2, par. 24 & app. B, part I A; SFFAS 19, par 6)		
135. Are the following components of estimated subsidy costs (and offsetting receipts) of post-1991 loans and guarantees separately recognized and disclosed? a. the interest subsidy costs[5] b. default costs[6] c. the present value of fees and other collections c. other subsidy costs (SFFAS 2, par. 25 – 29, & app. B, part I A & III A; OMB Bull. 97-01 as amended (Jan. 7, 2000), items H & I, pp. 53, 54, 57, & 58)		

[5] The interest subsidy cost of direct loans is the excess of the amount of the loans disbursed over the present value of the interest and principal payments required by loan contracts discounted at the applicable Treasury rate; for loan guarantees it is the present value of estimated interest supplement payments.

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
136. Is the subsidy cost allowance for post-1991 direct loans amortized using the interest method?[7] (SFFAS 2, par. 30, app. B, part I B(2); SFFAS 19, par. 7(a))		
137. If the effective interest for post-1991 direct loans is less than the nominal interest, is the subsidy cost allowance increased by the difference and recognized as a reduction in interest income? (SFFAS 2, par. 30 & app. B, part I B(2); SFFAS 19, par. 7(a))		
138. If the effective interest for post-1991 direct loans is greater than the nominal interest, is the subsidy cost allowance decreased by the difference and recognized as an increase in interest income? (SFFAS 2, par. 30 & app. B, part I B(2); SFFAS 19, par. 7(a))		
139. Is interest accrued and compounded on the liabilities of post-1991 loan guarantees at the interest rate that was originally used to calculate the present value of the loan guarantee liabilities when the guaranteed loans were disbursed? (SFFAS 2, par. 31 & app. B, part III B(2))		
140. Is the interest accrued and compounded on the liabilities of post-1991 direct loan guarantees recognized as an interest expense? (SFFAS 2, par. 31 & app. B, part III B(2))		

[6] The default cost of direct loans or loan guarantees is measured at the present value of projected payment delinquencies and omissions minus projected net recoveries.

[7] Under the interest method, the amortized amount is the difference between the nominal interest (face amount of loan times stated interest) and effective interest (present value of loan times discount rate). The effective interest rate is the average interest rate of marketable Treasury securities with similar maturity that was used to calculate the present value of the direct loans when the direct loans were disbursed, after adjusting for the interest rate reestimate. (SFFAS 2, app. C glossary; SFFAS 19, par. 7(a)).

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
Two kinds of reestimates for the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees are (1) interest rate reestimates and (2) technical/default reestimates. An interest rate reestimate results from changing the interest rates from those that were assumed in budget preparation and used in calculating the subsidy expense to the interest rates that are prevailing during the periods in which the direct or guaranteed loans are disbursed. A technical/default reestimate results from changes in projected cash flows of outstanding direct loans and loan guarantees after reevaluating the underlying assumptions and other factors (except for interest rate reestimates) that affect cash flow projections as of the financial statement date. (SFFAS 18, par. 9) *Cohort, as it is used here, is a budget term that refers to all direct loans or loan guarantees of a program for which a subsidy appropriation is provided for a given fiscal year, even if disbursements occur in subsequent years. For direct loans and loan guarantees for which a subsidy appropriation is provided for one fiscal year, the cohort will be defined for that fiscal year. For direct loans and loan guarantees for which multiple year or no-year appropriations are provided, the cohort is defined by the year of obligation. (SFFAS 18, glossary)*		
141. Does the entity measure and disclose reestimates of allowances for subsidy costs of post-1991 loans and liabilities for guarantees in two components separately, specifically: the interest rate reestimate and the technical/default reestimate? (SFFAS 18, par. 9)		
142. Is any increase (or decrease) in the subsidy cost allowance of post-1991 direct loans or loan guarantee liabilities resulting from the reestimates recognized as a subsidy expense (or a reduction in subsidy expense)? (SFFAS 2, par. 32 & app. B, parts I B(1) & III B(I); SFFAS 18, par. 9; OMB Bull. 97-01 OMB Bull. 97-01 as amended (Jan. 7, 2000), item H.2, pp. 52 & 57 & item I.2, pp. 54 & 58)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
143. If the assumed interest rates used in calculating the subsidy expenses for cohorts from which direct or guaranteed loans are disbursed differs from the rates prevailing at the time of the loan disbursement, is an interest rate reestimate for those cohorts made as of the date of the financial statements? (SFFAS 18, par. 9 (A))		
144. Do technical/default reestimates take into consideration all factors that may have affected various components of projected cash flows, including defaults, delinquencies, recoveries, and prepayments? (SFFAS 18, par. 9 (B))		
145. Are technical/default reestimates for each cohort made each year as of the date of the financial statements? (SFFAS 18, par. 9 (B))		
146. In a note to the financial statement, does the entity display reconciliation between the beginning and ending balances of the following? a. the subsidy cost allowances for outstanding direct loans b. the liability for outstanding loan guarantees reported in the entity's balance sheet (SFFAS 18, par. 10, 18 – 30, & app. B)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
147. Does the reconciliation of beginning and ending subsidy cost allowances and loan guarantee liability balances include changes in the following? a. interest subsidy costs, default costs, fees and other collections, and other subsidy costs b. interest rate and technical/default restimates c. other adjustments (SFFAS 2, par. 25 – 29; SFFAS 18, par. 10 & app. B)		
148. For direct loans, do other adjustments include loan modifications, fees received, loans written off, foreclosed property or other recoveries acquired, and subsidy allowance amortization? (SFFAS 18, par. 10 & app. B, schedule A)		
149. For loan guarantees, do other adjustments include loan guarantee modifications, fees received, interest supplements paid, claim payments made to lenders, foreclosed property or other recoveries acquired, and interest accumulated on the loan guarantee liability? (SFFAS 18, par. 10 & app. B, schedule B)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
150. In its notes to the financial statements, does the entity include a description of the characteristics of the program it administers, including the following? a. the total amount of direct or guaranteed loans disbursed for the current and preceding reporting years b. interest subsidy costs, default costs, fees and other collections, and other subsidy costs c. interest rate and technical/default restimates (SFFAS 2, par. 25 – 29; SFFAS 18, par. 10 & 11 (A))		
151. Does the reporting entity disclose, at the program level, the subsidy rates[8] for the following? a. interest subsidy costs b. default costs (net of recoveries) c. fees and other collections d. other costs estimated for direct loans and loan guarantees in the current year's budget for the current year's cohorts (SFFAS 18, par. 11 (B), 31 & 33 – 38)		
152. If the entity uses trend data to display significant fluctuations in subsidy rates, are these data accompanied by an analysis that explains the underlying causes for the fluctuations? (SFFAS 18, par. 11 (B) & 32)		

[8] The subsidy rate is the dollar amount of the subsidy component as a percentage of the direct loans or loan guarantees obligated in the cohort.

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
153. Does the reporting entity disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expenses, and subsidy reestimates? (SFFAS 18, par. 11 (C), 39, 41, & 43 - 49)		
154. Do changes in legislation or credit policies include, for example, changes in borrowers' eligibility, the levels of fees or interest rates charged to borrowers, the maturity of loan terms, and the percentage of a private loan that is guaranteed? (SFFAS 18, par. 11 (C) & 42)		
155. Does the disclosure and discussion also include events and changes that have occurred and are more likely than not to have a significant impact, but whose effects are not measurable at the reporting date? (SFFAS 18, par. 11 (C) & 41)		
156. Are default costs estimated and periodically reestimated for each post-1991 loan and loan guarantee program on the basis of separate cohorts and risk categories? (SFFAS 2, par. 33)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
157. In estimating default costs, has the entity considered the following factors? a. loan performance experience b. the current and forecasted international, national, or regional economic conditions that may effect the performance of the loans c. financial and other relevant characteristics of borrowers d. the value of collateral to loan balance e. changes in recoverable value of collateral f. newly developed events that could affect the loans' performance g. improvements in methods to reestimate defaults (SFFAS 2, par. 34)		
158. In estimating and reestimating current and projected future default costs for each group, cohort, and risk category of loan and guarantee, has the agency used a consistent and systematic methodology? (SFFAS 2, par. 35 & 36)		
159. Are unbudgeted subsidy expenses resulting from reestimates disclosed in a note to the financial statements? (OMB Bull. 97-01 OMB Bull. 97-01 as amended (Jan. 7, 2000), item K, p. 58)		
160. Is interest (at the discount rate in effect when the loans were first disbursed) accrued on post-1991 direct loans, including amortized interest, recognized as interest income? (SFFAS 2, par. 37 & app. B, part I B(2) & C)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
161. Is interest (at the original discount rate) accrued on debt to the Treasury arising from post-1991 direct loans recognized as interest expense? (SFFAS 2, par. 37 & app. B, part I B(2) & C)		
162. Is interest (at the discount rate in effect when the loans were first disbursed) accrued on liability of post-1991 loan guarantees recognized as interest expense? (SFFAS 2, par. 37 & app. B, part III B(2) & C)		
163. Is interest (at the original discount rate) due from the Treasury on uninvested funds associated with post-1991 loan guarantee liabilities recognized as interest income? (SFFAS 2, par. 37 & app. B, part III B(2) & C)		
164. Are costs for administering credit activities (such as salaries, legal fees, and servicing) incurred in support of direct loan and guaranteed loan programs recognized as administrative expenses and not included in direct loan and loan guarantee subsidy costs? (SFFAS 2, par. 38 & app. B, part I C)		
165. Are administrative expenses for loans and guarantees broken out and disclosed by program, if material? (OMB Bull. 97-01 OMB Bull. 97-01 as amended (Jan. 7, 2000), note 7, item J, pp. 54 & 58)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
166. Are losses (as well as valuation allowances and corresponding liabilities) of direct loans obligated and loan guarantees committed before October 1, 1992, recognized when it is likely that the direct loans will not be totally collected or that the loan guarantees will require a future cash outflow to pay default claims? (SFFAS 2, par. 39)		
167. If, at the time of the foreclosure, the expected net realizable value of pre-1992 foreclosed property is less than the cost (i.e., the carrying amount of the loan), is the loss charged to operations and tracked in a valuation allowance account? (SFFAS 3, par. 86)		
168. If the pre-1992 foreclosed asset's net realizable value subsequently increases or decreases, does the entity credit or charge this amount to results of operations and adjust the valuation allowance? (SFFAS 3, par. 86)		
169. Upon sale, is any difference between the net carrying amount of foreclosed property and the net proceeds of the sale recognized as a component of operating results? (SFFAS 3, par. 89)		
170. For post-1991 foreclosed property, is interest income accrued from the previous periodic adjustment in the carrying amount up to the sale date? (SFFAS 3, par. 89)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
171. Is the resulting difference between the adjusted carrying amount of the post-1991 foreclosed property and the net sales proceeds recognized as a reestimate of "subsidy expense?" (SFFAS 3, par. 89)		
172. For pre-1992 foreclosed property, is the difference between the carrying amount and net sales proceeds recognized as a gain or a loss on the sale of foreclosed property? (SFFAS 3, par. 89)		

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
The cost of the modification is the excess of the premodification value of a direct loan (or postmodification liability of loan guarantees) over the postmodification value of a direct loan (or premodification liability of loan guarantees), both of which have been discounted at the Treasury rate in effect when the modification occurred. (SFFAS 2, par. 45, notes 3 & 4 & par. 49, notes 6 & 7; SFFAS 19, par. 6) *When a loan or loan guarantee is modified, the book value of a direct loan will generally decrease, while the liability for a loan guarantee will typically increase. The book value of the loan or guarantee is discounted at the Treasury rate originally used to calculate the present value of the direct loan or loan guarantee liability when the loan was originally disbursed. (SFFAS 2, par. 48 & 50, app. B parts I D (4 & 5), II B (4), III B (4), & IV B (4))* *A gain from a modification occurs when the cost of a modification is greater than the decrease in book value of a direct loan (or increase in the liability of a loan guarantee). (SFFAS 2, par. 46, par. 48 note 5, par. 50 & par. 52 footnote 8; SFFAS 19, par. 7)* *Conversely, a loss from a modification occurs when the cost of a modification is less than the decrease in book value of a direct loan (or increase in the liability of a loan guarantee) that was discounted at the Treasury rate in effect when the loan was made. (SFFAS 2, par. 46, par. 48 note 5, par. 50 & par. 52 note 8; SFFAS 19, par. 7)* *A sale of a post-1991 loan and pre-1992 direct loan is treated as a direct modification of the loans sold. The cost of modification is determined on the basis of the premodification value of the loans sold. (SFFAS 2, par. 53 & 54)*		
173. If pre-1992 or post-1991 loans are modified, is the excess of the premodification value[9] over the post-modification value[10] recognized as a modification expense or cost? (SFFAS 2, par. 45 & app. B, parts I D(1 - 3) & II B(1 - 3))		

[9] This is the present value of the net cash flows under *pre*modification terms discounted at the *current* Treasury rate.
[10] This is the present value of the net cash flows under *post*modification terms discounted at the *current* Treasury rate.

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
174. If the cost of modifying pre-1992 or post-1991 loans is greater than the decrease in the loans' book value[11], is the difference recognized as a gain? (SFFAS 2, par. 48 & app. B, parts I D(4 & 5) & II B (4 & 5))		
175. If the cost of modifying pre-1992 or post-1991 loans is less than the decrease in the loans' book value, is the difference recognized as a loss? (SFFAS 2, par. 48 & app. B, parts I D(4 & 5), & part II B(4 & 5))		
176. If pre-1992 or post-1991 loan guarantees are modified, is the excess of the postmodification liability[12] over the premodification liability[13] recognized as a modification expense? (SFFAS 2, par. 49 & app. B, parts III D(1 - 3), & IV B (1 - 3))		
177. If the premodification value of post-1991 and pre-1992 loans sold[14] exceeds the net proceeds from the sale, is the excess treated as the cost of modification and recognized as a modification expense? (SFFAS 2, par. 45 & 53 & app. B, part I F(1))		
178. If a loan is sold with recourse, are estimated losses recognized as a subsidy expense and loan guarantee liability? (SFFAS 2, par. 54)		

[11] This is the difference between the *pre*modification and the *post*modification values discounted at the *original* (premodification) discount rate.
[12] This is the present value of the net cash flows under *post*modification terms discounted at the *current* Treasury rate.
[13] This is the present value of then net cash flows under *pre*modification terms discounted at the *current* Treasury rate.
[14] This is the present value of the loans' net cash inflows discounted at the *current* discount rate.

Section IV Statement of Net Cost

Costs **Credit Programs (134 – 182)**	**Yes, No, or N/A**	**Explanation**
179. If the cost of modifying pre-1992 or post-1991 loan guarantees is greater than the increase in the book value of the related loan guarantee liabilities,[15] is the difference recognized as a gain? (SFFAS 2, par. 52 & app. B, parts III D (4 & 5) & IV B (5))		
180. If the cost of modifying pre-1992 or post-1991 loan guarantees is less than the increase of the related loan guarantee liabilities, is the difference recognized as a loss? (SFFAS 2, par. 52 & app. B, parts III D(4 & 5) & IV B (5))		
181. If the modification expense arising from a loan sale is greater than the book value loss, is the difference recognized as a gain? (SFFAS 2, par. 55 & app. B, part I F(2))		
182. If the modification expense arising from a loan sale is less than the book value loss, is the difference recognized as a loss? (SFFAS 2, par. 55 & app. B, part I F (2))		

[15] This is the difference between the *pre*modification and the *post*modification values discounted at the original discount rate.

Section IV Statement of Net Cost

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Section V Statement of Changes in Net Position

The 37 questions in this section are related to the Statement of Changes in Net Position

		Question Numbers
1.	Net Cost of Operations	1 - 2
2.	Appropriations Used	3 - 4
3.	Taxes and Other Nonexchange Revenues	5 - 12
4.	Donations	13
5.	Imputed Financing	14
6.	Transfers	15 - 18
7.	Modifications	19 - 24
8.	Prior-period Adjustments	25 - 31
9.	Unexpended Appropriations	32 - 33
10.	Net Position	34 - 37

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	**Yes, No, or N/A**	**Explanation**
The Statement of Changes in Net Position reports the beginning net position, the items that caused net position to change during the reporting period, and the ending net position. (SFFAS 7 Imple. Guide, par. 63; OMB 97-01 as amended (Jan. 7, 2000), p. 32)		
1. Does the amount reported for "net cost of operations" correspond to the amount reported on the current year's Statement of Net Cost? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 32)		
2. Is nonexchange revenue recognized as a financing source in calculating the net results of operations (and not as a deduction in determining the net cost of operations)? (SFFAS 7, par. 60)		
3. Are "appropriations used" recognized as a financing source in determining the net results of operations when, under authority of the appropriation, goods and services are received or benefits or grants are provided? (SFFAS 7, par. 72, 212, 214, 331, & 332; OMB 97-01 as amended (Jan. 7, 2000), p. 32)		
4. Do appropriations used exclude the following appropriations? a. appropriations of dedicated tax receipts and donations b. appropriations used by collecting entities to provide refunds of monies deposited to Treasury or trust funds c. appropriations used for repayment of debt (SFFAS 7, par. 332; OMB 97-01 as amended (Jan. 7, 2000), p. 32)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	Yes, No, or N/A	Explanation
5. Does the entity recognize taxes and other nonexchange revenues to which it is legally entitled and which it does not transfer to other entities? (SFFAS 7, par. 48, 49, & 176; SFFAS 7 Imple.Guide, par. 65 & 95)		
6. Is nonexchange revenue recognized when the government's claim to resources can be characterized as follows? a. specifically identifiable b. legally enforceable c. reasonably measurable d. more likely than not collectable (SFFAS 7, par. 48)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	Yes, No, or N/A	Explanation
7. Are the following transactions recognized as taxes and other nonexchange revenues from the public? a. individual and corporate income taxes, social insurance taxes and contributions, excise taxes, estate and gift taxes, and customs duties b. social insurance taxes and contributions paid by federal employees c. deposits by states for unemployment trust funds d. user fees and harbor maintenance trust fund payments d. customs service fees f. deposits of earnings from the Federal Reserve System g. donations h. fines and penalties i. penalties due to delinquent taxes in connection with custodial activity j. forfeitures (SFFAS 7, par. 49, 61 - 63, 242 - 257, 260 - 269, & 305; SFFAS 7 Imple. Guide, par. 99 - 103)		
8. Is seignorage[1] recognized as an “other” financing source when coins are delivered to the Federal Reserve banks in return for deposits? (SFFAS 7, par. 305)		

[1] This is the difference between the face value of newly minted coins less the cost of manufacture.

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	Yes, No, or N/A	Explanation
9. Are the following transactions recognized as nonexchange revenue from other federal government entities? a. interest on Treasury securities held by trust funds and special funds (except revolving trust funds) when the predominant source of funds is from nonexchange revenue b. interest received by one fund from another c. employer contributions to social insurance programs (SFFAS 7, par. 306 – 310)		
10. Does the general fund recognize all nonexchange revenue not recognized by trust funds and other recipient entities? (SFFAS 7, par. 60.4)		
11. Does the general fund recognize, in succeeding periods, revenue that is determined, after the books have been closed for the period, to have been properly transferable (or improperly transferred) to other recipient entities? (SFFAS 7, par. 60.4)		
12. Are the following transactions recognized as nonexchange gains or losses from other federal government entities? a. retirement of debt securities prior to maturity held by trust funds and special funds b. cancellation of debt (SFFAS 7, par. 311 – 313)		
13. Is revenue arising from donations of nonfinancial resources measured at the estimated fair value of the contribution at the time of the donation? (SFFAS 3, par. 43; SFFAS 6, par. 30; SFFAS 7, par. 62, 258, 259, & 361; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 32)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	Yes, No, or N/A	Explanation
14. Does the reporting entity recognize an imputed financing source for costs funded through other federal entities as well as nonreimbursed costs of goods and services provided by other federal entities? (SFFAS 4, par. 109; SFFAS 5, par. 75, 77, 78, 91, & 93; SFFAS 7, par. 70, 73, 220, & 333 - 337; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 32)		
15. When assets are transferred among governmental entities without reimbursement: a. Does the receiving entity recognize the transfer-in as an increase in financing sources in its statement of net position? b. Does the transferring entity recognize the transfer-out as a decrease in financing sources in its statement of net position? (SFFAS 7, par. 74, 220(b), par. 344 - 346; SFFAS 7 Imple. Guide, par. 65; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 32 & 33)		
16. Are transferred assets recorded at the book value of the transferring entity, or, if the receiving entity does not know the book value, is the asset recorded at its estimated fair value as of the date of the transfer? (SFFAS 7, par. 74; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 32 & 33)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	**Yes, No, or N/A**	**Explanation**
17. Is revenue recognized by the recipient entities as the sum of the following? a. cash or cash equivalents transferred to them by the collecting entities b. the net change in any related interentity balances between the collecting and the receiving entities (i.e., the amount to be transferred to the recipient entities from the collecting entity or vice versa) (SFFAS 7, par. 60)		
18. Is noncustodial exchange revenue transferred to another government entity or to the Treasury recognized as a "transfer-out" in determining the net results of operations? (SFFAS 7, par. 75 & note 18)		
A modification means a federal government action, including new legislation or administration action, that directly or indirectly alters the estimated subsidy cost and present value of outstanding loans or the liability of loan guarantees. (SFFAS 2, par. 41)		
19. Is a gain[2] from the modification of post-1991 loans reported as a reduction in financing source and paid to the Treasury as a "modification adjustment transfer?" (SFFAS 2, par. 48, & app. B, part I D(5))		
20. Is a loss[3] from the modification of post-1991 loans reported as a financing source when the reporting entity receives from the Treasury a "modification adjustment transfer?" (SFFAS 2, par. 48 & app. B, part I D(5))		

[2] The excess of the cost of the modification over the decrease in loan book value discounted at the Treasury rate.

[3] The excess of the decrease in loan book value, discounted at the Treasury rate, over the cost of the modification.

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	**Yes, No, or N/A**	**Explanation**
21. Is a gain[4] resulting from a modification of post-1991 loan guarantees reported as a reduction in financing source and paid to the Treasury as a "modification adjustment transfer?" (SFFAS 2, par. 52 & app. B, part III D(5))		
22. Is a loss[5] resulting from a modification of post-1991 loan guarantees reported as a financing source when the reporting entity receives from the Treasury a "modification adjustment transfer" to offset the difference? (SFFAS 2, par. 52 & app. B, part III D(5))		
23. Is a gain on the sale of a post-1991 loan reported as a reduction in financing source and paid to the Treasury as a "modification adjustment transfer?" (SFFAS 2, par. 55 & app. B, part I F(2))		
24. Is a loss on the sale of a post-1991 loan reported as a financing source when the reporting entity receives from the Treasury a “modification adjustment transfer?” (SFFAS 2, par. 55 & app. B, part I F(2))		
25. Are prior-period adjustments limited to corrections of errors and accounting changes with retroactive effect, including changes caused by the adoption of new federal financial accounting standards? (SFFAS 7, par. 76; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 33)		

[4] The excess of the cost of the modification over the increase in liability discounted at the Treasury rate.
[5] The excess of the increase in liability, discounted at the Treasury rate, over the cost of the modification.

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	**Yes, No, or N/A**	**Explanation**
26. Are prior-period adjustments recognized as changes in cumulative results of operations (rather than as an element of net results of operations for the period)? (SFFAS 7, par. 76; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 33)		
27. If cost information for existing general PP&E has not been maintained, are the estimated values recorded in the appropriate asset and contra-asset accounts and the difference shown as a "prior-period adjustment" in the statement of changes in net position? (SFFAS 6, par. 40 & 43)		
28. If national defense, heritage PP&E, and stewardship land had been previously recognized as assets and contra-assets for balance sheet reporting, has the entity performed the following operations? a. netted out these accounts, charged the residual to "net position" b. shown the net change as a "prior-period adjustment" in the statement of changes in net position (SFFAS 6, par. 55; SFFAS 11, par. 7; SFFAS 16, par. 14)		
29. Conversely, if multiuse heritage assets are capitalized, is the asset fair value added to the balance sheet and reported as a "prior-period adjustment? (SFFAS 16, par. 15)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	**Yes, No, or N/A**	**Explanation**
30. If stewardship PP&E has been placed into service as of September 30, 1997, is a liability recognized, disclosed, and an adjustment made to net position as a "prior-period adjustment" for the following amounts? a. the portion of estimated clean-up costs incurred to date b. the estimated total clean-up costs as a liability if costs are not intended to be recovered primarily through user charges (SFFAS 6, par. 16 & 104 - 106; OMB 97-01 as amended (Jan. 7, 2000), p. 74)		
31. If prior-period adjustments are made to the current year's assets and liabilities and offset against net position: a. Are the amounts and circumstances disclosed in the notes? b. Are the published financial statements presenting prior-year financial information left unchanged? (SFFAS 6, par. 55, 56, 63, 65, 75, 76, 105, & 106)		
32. Are unexpended appropriations reduced as appropriations are used? (SFFAS 7, par. 71)		
33. Are unexpended appropriations adjusted for other changes in budgetary resources, such as rescissions and transfers? (SFFAS 7, par. 71)		
34. Is the “Net Position - Beginning Period” consistent with “Net Position - End of Period” on the prior-year’s balance sheet? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 33)		

Section V Statement of Changes in Net Position

Changes in Net Position (1 – 37)	Yes, No, or N/A	Explanation
35. Is “Net Position - End of Period” reported in the Statement of Changes in Net Position consistent with “Total Net Position” reported in the current year’s Balance Sheet? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 16 & 33)		
36. Is the sum of the net increase or decrease in unexpended appropriations and the net change in the cumulative results of operations recognized as the "Change in Net Position?" (SFFAS 7, par. 71; SFFAS 7 Imple. Guide, par. 65 & 121, figure 3 & 4; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 31 & 33)		
37. Is the difference between "Net Position - Beginning of Period" and "Net Position - End of Period" equal to the "Change in Net Position?" (SFFAS 7, par. 71; SFFAS 7 Imple. Guide, par. 121, figures 3; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 31 & 33)		

Section V Statement of Changes in Net Position

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Section VI Statement of Budgetary Resources

The four questions in this section concern the Statement of Budgetary Resources

Statement of Budgetary Resources (1 – 4)	**Yes, No, or N/A**	**Explanation**
The budget is the primary financial planning and control tool of the government. The Statement of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. (SFFAS 7, par. 77; SFFAS 7 Imple. Guide, par. 68; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 36)		
1. If the reporting entity's financing comes either wholly or partially from budgetary resources, does the entity present in a "Statement of Budgetary Resources" the following disclosures? a. total budgetary resources available during the period including, if applicable i. new budget authority ii. direct spending authority iii. unobligated balances at the beginning of the period or transferred in during the period iv. spending authority from offsetting collections v. adjustments to budgetary authority b. the status of budgetary resources consisting, when applicable, of i. obligations incurred ii. unobligated balances that remain available at the end of the period		

Section VI Statement of Budgetary Resources

Statement of Budgetary Resources (1 – 4)	**Yes, No, or N/A**	**Explanation**
Question 1 continued b. the status of budgetary resources consisting, when applicable, of iii. unobligated balances that are unavailable at the end of period, except to adjust or liquidate obligations chargeable to prior-period appropriations c. a statement of outlays during the period that displays i. obligations incurred less spending authority from offsetting collections and adjustments ii. obligated balances at the beginning of the period iii. obligated balances transferred iv. obligated balances net at end of extra period (SFFAS 7, par. 77; & SFFAS 7, Imple. Guide, par. 68 – 69; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 35 & 36)		
2. Is the recognition and measurement of budgetary information reported on the Statement of Budgetary Resources based on budget terminology, definitions, and guidance in OMB Circular A-34, *Instructions on Budget Execution*, dated December 26, 1995? (SFFAS 7, par. 78; SFFAS 7, Imple. Guide, par. 69; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 36, 2nd par.)		

Section VI Statement of Budgetary Resources

Statement of Budgetary Resources (1 – 4)	**Yes, No, or N/A**	**Explanation**
3. Is the information for each of the entity's major budget accounts presented as required supplementary information? (SFFAS 7, par. 78; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 80)		

Section VI Statement of Budgetary Resources

Statement of Budgetary Resources (1 – 4)	**Yes, No, or N/A**	**Explanation**
4. Does the entity disclose the following information about the status of its budgetary assets? a. the amount of budgetary resources obligated for undelivered orders at the end of the period b. available borrowing and contract authority at the end of the period c. repayment requirements, financing sources for repayment, and other terms of borrowing authority used d. material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof e. existence, purpose, and availability of permanent indefinite appropriations f. information about legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations g. explanations of any material differences between the budgetary resources reported in the Statement of Budgetary Resources and "actual" amounts in the Budget of the U.S. government h. the amount of unfunded liabilities, and an explanation that includes identification of balance sheet components, when unfunded liabilities do not equal the total financing sources yet to be provided i. the amount of any capital infusion received during the reporting period (SFFAS 7, par. 79 & 209 – 212; SFFAS 7 Imple. Guide, par. 70-71; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 74 & 75)		

Section VII Statement of Financing

The ten questions in this section are related to the Statement of Financing.

		Question Numbers
1.	General	1
2.	Obligations and Nonbudgetary Resources	2 - 3
3.	Resources That Do Not Fund Net Cost of Operations	4 - 5
4.	Costs That Do Not Require Resources	6 - 7
5.	Financing Sources Yet to be Provided	8
6.	Net Cost of Operations	9
7.	Disclosures	10

Section VII Statement of Financing

Statement of Financing (1 – 10)	**Yes, No, or N/A**	**Explanation**
Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. The Statement of Financing is designed to report those differences and facilitate the reconciliation between the two statements. (SFFAS 7, par. 80; SFFAS 7 Imple. Guide, par. 72 - 73; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 38)		
1. Does the reconciliation between the budgetary and financial accounting information explain the relationship between budgetary resources obligated by the entity during the period and the net cost of operations? (SFFAS 7; par. 80, 91 - 94, & 217; SFFAS 7 Imple. Guide, par. 74 - 75)		
2. To arrive at "total adjusted obligations and nonbudgetary resources," are "obligations incurred" reduced by such adjustments as the following? a. offsetting collections to expenditure accounts (e.g., receipts from the sale of capitalized assets, collections of loan principle, and related interest and reimbursements for services provided) b. exchange revenues not in the budget c. transfers-out of assets in the amount of their book value (SFFAS 7, par. 80; SFFAS 7 Imple. Guide, par. 77 - 81, 121 (figure 11), 140 - 152, 155, & 168 - 170; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37 & 38)		

Section VII Statement of Financing

Statement of Financing (1 – 10)	Yes, No, or N/A	Explanation
3. To arrive at "total obligations as adjusted and nonbudgetary resources," are "obligations incurred" increased by such adjustments as the following? a. imputed financing for cost subsidies b. transfers-in of assets in the amount of the book value, if known, or for the fair market value, if not known c. financing sources other than exchange revenues that are not in the budget d. donations not accounted for in the budget (SFFAS 7, par. 80; SFFAS 7 Imple. Guide, par. 77 - 81, 121 (figure 16), 140 - 141, & 146 - 152; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37 & 38)		

Section VII Statement of Financing

Statement of Financing (1 – 10)	Yes, No, or N/A	Explanation
4. Are adjusted obligations and nonbudgetary resources reduced by certain changes in resources that do not fund net costs of operations, including the following? a. the amount of net increases in undelivered but obligated orders for goods, services, and benefits b. the cost of any capitalized good or service acquired during the year c. loans made (less subsidy expense) d. financing sources that fund costs of prior periods (e.g., appropriations for credit subsidies expensed in prior periods or decreases in unfunded liabilities, such as reductions in accrued annual leave liabilities) e. other resources that do not fund net costs of operations (SFFAS 7, par. 81; SFFAS 7 Imple. Guide, par. 82 - 85, 121 (figures 11 & 16), 127 - 139, & 153 -167; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37 & 38)		

Section VII Statement of Financing

Statement of Financing (1 – 10)	Yes, No, or N/A	Explanation
5. Are adjusted obligations and nonbudgetary resources increased by certain changes in resources that do not fund net costs of operations, including the following? a. the amount of net decreases in undelivered and obligated orders for goods, services, and benefits b. Collections of loan principal and related subsidy expenses c. removal of undepreciated portions of capitalized assets disposed of during the year d. other offsetting adjustments (SFFAS 7, par. 81; SFFAS 7 Imple. Guide, par. 82 - 85, 142 - 145, 146 - 152, & 153 - 167; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37 & 38)		
6. Are certain costs that do not require financing by either budgetary or nonbudgetary resources (e.g., depreciation and losses or expenses arising from revaluation of assets) added to adjusted obligations and nonbudgetary resources to arrive at net costs of operations? (SFFAS 7, par. 81; SFFAS 7 Imple. Guide, par. 86 - 89 & 121 (figures 11 & 16); OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37, 38, & 39)		
7. If the reimbursement for goods or services provided by one federal entity to another federal entity is less than the full cost, does the recipient entity recognize the difference in its accounting records as a financing source? (SFFAS 4, par. 109, 114, & 115)		

Section VII Statement of Financing

Statement of Financing (1 – 10)	Yes, No, or N/A	Explanation
8. Are costs that are recognized in the current period but are to be financed in future periods (e.g., accrued expenses such as increases in annual leave, subsidy reestimates, and increases in postretirement benefit liabilities) reported as "financing sources yet to be provided?" (SFFAS 7, par. 81; SFFAS 7 Imple. Guide, par. 90 - 93 & 121 (figures 6 & 11); OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 37 & 39)		
9. Does the net cost of operations on the Statement of Financing agree with the net cost of operations on the Statement of Net Cost? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 39)		
10. Are adjustments to the total of obligations and nonbudgetary resources presented and explained in a manner that clarifies the relationship between the obligation basis used in the budget and the accrual basis used in financial accounting? (SFFAS 7, par. 80 - 82)		

Section VIII Statement of Custodial Activity

The 26 questions in this section are related to the Statement of Custodial Activity

		Question Numbers
1.	General	1 - 2
2.	Sources of Collections	3 - 8
3.	Disposition of Collections	9 - 12
4.	Disclosures	13 - 17
5.	Dedicated Collections and Other Accompanying Information	18 - 26

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	**Yes, No, or N/A**	**Explanation**
Entities that collect nonexchange revenue for the General Fund of the Treasury, a trust fund, or other recipient entities account for the collection and disposition of these revenues in a Statement of Custodial Activity. (SFFAS 7 Imple. Guide, par. 58; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		
1. If the entity collects *exchange* revenue on behalf of other entities and recognizes little or no costs in earning that revenue, does the entity account for it as a custodial activity? (SFFAS 7, par. 45, 140 - 145, & 270 - 279; SFFAS 7 Imple. Guide, par. 51 - 57; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		
2. If the collecting entity is not legally entitled to retain a portion or all of the collected *nonexchange* revenue, is the receipt and disposition of that revenue reported in the Statement of Custodial Activity? (SFFAS 7, par. 48, 49, & 176; SFFAS 7 Imple. Guide, par. 58 - 62 & 95; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		
3. Does the collecting entity measure taxes and duties on a cash basis and then modify that with an accrual adjustment to determine the amount of revenue to be recognized? (SFFAS 7, par. 49 & 52)		
4. Except for deposits,[1] are cash collections based on amounts actually received[2] during the period? (SFFAS 7, par. 50 & 59)		
5. Are the components of cash collections classified by source and nature of collection, such as by type of tax or duty? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		

[1] Deposits are amounts voluntarily paid to reporting entities, such as those made pending settlements and judgments.
[2] These would include withholdings, estimated payments, final payments, collections of receivables, and prepayments.

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	Yes, No, or N/A	Explanation
6. Are cash refunds of nonexchange revenue based on refunds of taxes and duties during the period? (SFFAS 7, par. 51)		
7. Do cash refunds of nonexchange revenue for taxes and duties include "refund offsets”[3] and "drawbacks?”[4] (SFFAS 7, par. 51)		
8. Are accrual adjustments separately reported in a footnote?[5] (SFFAS 7, par. 52; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		
9. Is the disposition of collections, including amounts transferred to others, amounts yet to be transferred, and amounts retained by the collecting entity reported and broken out by recipient? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 40, 41, & 42)		
10. Does the collecting entity report the change in liability for accrued and collected revenue yet to be transferred? (SFFAS 7 Imple. Guide, par. 61; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 41)		
11. Are collections retained by the entity separately reported and treated as a disposition of collections revenue? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 42)		

[3] These are amounts withheld from refunds on behalf of other agencies and paid to such agencies.
[4] These are refunds of duties paid on imported goods that are subsequently exported or destroyed.
[5] Accrual adjustments are the net increases or decreases during the reporting period in accounts receivable, allowance for uncollectable accounts, and accounts payable for refunds.

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	**Yes, No, or N/A**	**Explanation**
12. In the statement of custodial activity, do total sources of collections equal total disposition of collections (revenue) so that the net custodial activity is zero? (SFFAS 7 Imple. Guide, par. 61; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 40 & 42)		
13. If custodial revenues are immaterial and incidental to the entity's primary mission and are not reported separately, are the sources and amounts of the collections and the amounts distributed to others disclosed in the accompanying footnotes? (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 41 & 75)		
14. Does the collecting entity disclose and explain the following information? a. the basis of accounting when application of the general rule for recognizing nonexchange revenue (i.e., specifically identifiable, legally enforceable, and reasonably estimable) results in a modified cash basis of accounting b. the specific potential accruals that are not made as a result of using the modified cash basis accounting c. the practical and inherent limitations affecting the accrual of taxes and duties d. the use of accrual-based accounting, if applicable (SFFAS 7, par.48 & 64; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75		

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	**Yes, No, or N/A**	**Explanation**
15. Do entities that collect taxes and duties disclose the following information in a note or narrative? a. basis of accounting b. factors affecting the collectability and timing of taxes and other nonexchange revenues c. cash collections and refunds by tax year and type of tax for the reporting period (SFFAS 7, par. 65.1 & 65.3; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75)		
16. If trust fund revenues are not recorded in accordance with applicable law, do the collecting and recipient entities disclose the reasons? (SFFAS 7, par. 66)		
17. If refunds are material in relation to gross collections, are they separately disclosed by components? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 39)		
Dedicated collections are funds held with the expectation that they will be held for and applied to the purposes for which the funds were dedicated. Such funds include all funds within the budget classified as trust funds, those funds within the budget that are classified as "special funds" but that are similar in nature to trust funds, and those funds within the federal universe (inside or outside the budget) that are fiduciary in nature. (SFFAS 7, par. 83; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75)		
18. Does the management of a reporting entity identify, track, and disclose the receipts and expenditures of dedicated trust funds, "special funds," and fiduciary or deposit funds (both inside and outside the budget) that are under its purview? (SFFAS 7, par. 83, 226, 230 - 233, & 370; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75)		

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	Yes, No, or N/A	Explanation
19. Does management provide separate financial information about these dedicated funds if they are material to the reporting entity, the beneficiary, or the contributors? (SFFAS 7, par. 84, 226, 230 - 233, & 370)		
20. If a separate report is made to beneficiaries of or contributors to dedicated collections and the funds are not material to the reporting entity, are those immaterial funds combined for disclosure purposes? (SFFAS 7, par. 84 & 85)		

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	**Yes, No, or N/A**	**Explanation**
21. Is the following information reported for individual funds that account for dedicated collections? a. a description of each fund's purposes, and how the administrative entity accounts for and reports the fund and its authority to use those collections b. the sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the government or the result of intragovernmental flows c. condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, other liabilities, and fund balance d. condensed information on net cost and changes to fund balance showing revenues by type (exchange or nonexchange), program expenses, other expenses, other financing sources, and other changes in fund balance e. the amounts of any revenues — other financing sources or costs attributable to the fund under accounting standards — that are not legally allowable as credits or charges to the fund (SFFAS 7, par. 85)		
22. If revenues, other financing sources, or costs (such as item "e" of the previous question) are associated with but not legally allowable to a fund, does the larger reporting entity of which the fund is a component recognize them? (SFFAS 7, par. 86; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75)		

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	Yes, No, or N/A	Explanation
23. If more than one reporting entity is responsible for carrying out a program financed with dedicated collections, does the entity with the largest share of the activity take responsibility for reporting all revenues, other financing sources, assets, liabilities, and costs of the fund? (SFFAS 7, par. 87; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 75)		
24. Are trust funds allowed to recognize revenue from excise taxes on the basis of assessments if information on actual collections is not currently available from the collecting entity? (SFFAS 7, par. 60.1)		
25. Is the amount of revenue accrued and recognized by the social security trust fund based on the best available information (i.e., on the basis of the higher of the amount of Internal Revenue Service (IRS) assessments or the amounts actually reported by employers to Social Security)? (SFFAS 7, par. 60.2 & 177)		

Section VIII Statement of Custodial Activity

Statement of Custodial Activity (1 – 26)	Yes, No, or N/A	Explanation
26. Does the collecting entity report the following as other accompanying information? a. income tax burden borne by different classes of taxpayers and the effects of tax rates, deductions, credits, etc. (required of IRS) b. applicable information on the size of the tax gap, including i. explicit definitions of the estimated amounts reported (e.g., whether the tax gap includes estimates on illegally earned income) ii. appropriate explanations of the limited reliability of the estimates iii. cross references to portions of the tax gap due from identified noncompliant taxpayers and importers c. appropriate explanations and qualifications, if information about tax expenditures related to entity programs is present d. a description of the basis for the estimates and appropriate cautionary language about reliability, if information about estimated directed flows of resources related to an entity's programs is presented (SFFAS 7, par. 69.1 - 69.4, 108, & 192 - 202; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 82)		

Section VIII Statement of Custodial Activity

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Section IX Notes to Financial Statements

The four questions in this section concern the disclosure of significant accounting policies

Notes to Financial Statements (1 - 4)	**Yes, No, Or N/A**	**Explanation**
1. Does the entity identify and describe accounting principles and applications it follows in a note to the financial statements? (OMB Bull. 97-01 as amended (Jan. 7, 2000) , p. 43, note 1)		
2. Does the entity's disclosure of its accounting policies include its rationale for the valuation, recognition, and allocation of assets, liabilities, expenses, revenues, and other financing sources? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 43, note 1)		
3. Does the entity disclose any significant changes in its composition or manner in which it aggregates information for financial reporting purposes? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 43, note 1)		
4. If the changes have resulted in a new reporting entity, has the entity restated prior-period financial statements to correspond to the changes? (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 43, note 1)		

Section IX Notes to Financial Statements

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Section X Supplementary Information

The questions related to the Supplementary Information are organized in the following nine categories.

		Question Numbers
1.	Required Supplementary Stewardship Information: Property, Plant and Equipment	1 – 19
2.	Required Supplementary Stewardship Information: Stewardship Investments	20 – 41
3.	Required Supplementary Stewardship Information: Risk Assumed Information	42 – 46
4.	Required Supplementary Information: Custodial Activity	47 – 48
5.	Required Supplementary Information: Segment Information	49 – 50
6.	Required Supplementary Information: Deferred Maintenance	51 – 54
7.	Required Supplementary Information: Intragovernmental Amounts	55 – 67
8.	Required Supplementary Stewardship Information: Social Insurance Programs	68 – 94
9.	Required Supplementary Information: Management Discussion and Analysis	95 – 101

Section X Supplementary Information

Required Supplementary Stewardship Information: Property, Plant, and Equipment (1 – 19)	**Yes, No, or N/A**	**Explanation**
The standards for reporting on the federal government's stewardship cover (1) certain resources entrusted to it that are identified as stewardship property, plant, and equipment (PP&E) and stewardship investments and (2) certain responsibilities assumed by it, identified as the current services assessment, that cannot be measured in traditional financial reports. *PP&E consists of items whose characteristics resemble those of general PP&E traditionally capitalized in financial statements. However, because of the nature of these assets, valuation may be difficult, and matching costs with specific periods would not be meaningful.* *Stewardship PP&E includes:* - *heritage assets, such as federal monuments and memorials, that are of historical, natural, cultural, educational, architectural, or artistic significance;* - *national defense PP&E such as military weapons systems; and* - *stewardship land, such as national forests and parks, that have not been acquired for or in connection with general PP&E. (SFFAS 8, par. 9, 10, 11, & 17; SFFAS 11, par. 3, 4 & 7; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 76)*		
1. Are heritage assets reported as Required Supplementary Stewardship Information (RSSI) accompanying the financial statements rather than as asset amounts on the balance sheet? (SFFAS 8, par.17, 19,21, & 46; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 76)		
2. Are heritage assets reported in RSSI in terms of physical units rather than in terms of cost, fair value, or other monetary values? (SFFAS 8, par. 46; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 76)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Property, Plant, and Equipment (1 – 19)	**Yes, No, or N/A**	**Explanation**
3. Does the reporting entity provide relevant RSSI in the financial statements, such as the following information about its heritage assets? a. a description of each major category of heritage asset b. a breakout by type of heritage asset of the number of physical units added, withdrawn, and on hand at the end of the reporting year c. a description of the methods of acquisition and withdrawal of heritage assets d. a description of the condition of the assets if not already disclosed in a note to the financial statements e. a reference to the Required Supplementary Information, if deferred maintenance has been reported for the assets (SFFAS 8, par. 50; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		
National defense PP&E are (1) the PP&E components of weapons systems and support PP&E owned by the Department of Defense or its component entities for use in the performance of military missions and (2) vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet. (SFFAS 11, par. 8)		
4. Is National defense PP&E reported as RSSI? (SFFAS 8, par. 68; SFFAS 11, par. 16 & 22 – 24; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		

Section X Supplementary Information

Required Supplementary Stewardship Information: **Property, Plant, and Equipment (1 – 19)**	**Yes, No, or N/A**	**Explanation**
5. Do national defense PP&E components include the following items? a. weapons systems PP&E (e.g., aircraft, ships, and tanks) b. weapons systems supporting principal end items (e.g., radars, guidance systems, engines) c. weapons systems supporting real property (e.g., ammunition bunkers, missile silos) d. mission support PP&E (e.g., nontactical vehicles such as fuel tankers, combat operations centers, crypto systems, and field security systems) (SFFAS 11, par. 9 & 14)		
6. Does national defense PP&E also include PP&E items in the possession of contractors? (SFFAS 11, par. 10 & 11)		
7. Does national defense PP&E exclude the following items? a. manufacturing and testing equipment b. operating materials and supplies c. stockpiled materials (SFFAS 11, par. 12 & 13)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Property, Plant, and Equipment (1 – 19)	**Yes, No, or N/A**	**Explanation**
8. Is national defense PP&E valued and reported in RSSI using either of the following methods? a. the total cost method[1] b. the latest acquisition cost method[2] (SFFAS 8, par. 60, 62, 63, & 121; SFFAS 11, par. 22 – 24; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		
9. Is the valuation method chosen used on a consistent basis and, if any change in method is made, is it justified? (SFFAS 8, par. 61; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		
10. Do the costs assigned to an item of national defense PP&E also include all costs incurred to bring PP&E to a form and location suitable for its intended use? (SFFAS 8, par. 64)		
11. Does the reporting entity include in its RSSI the acquisition-in-process costs of its national defense PP&E? (SFFAS 8, par. 67; SFFAS 11, par. 16 & 22 - 24)		

[1] This is historical cost plus costs of additions, improvements, alterations, rehabilitation, or replacements that extend useful life.
[2] This is the latest invoice price of the most recent like item purchased.

Section X Supplementary Information

Required Supplementary Stewardship Information: Property, Plant, and Equipment (1 – 19)	**Yes, No, or N/A**	**Explanation**
12. Does the reporting entity include, at a minimum, in its RSSI the following information about its national defense PP&E? a. a description of major types of national defense PP&E including assigned values and valuation method b. a description of the methods of acquisition and withdrawal at the major program or category level c. beginning value d. value added e. value withdrawn f. revaluations g. ending value h. the overall condition of the assets (unless this is already reported elsewhere in the report, in which case a note will suffice) i. a reference to the applicable information if deferred maintenance is reported for the assets (SFFAS 8, par. 17 & 68; SFFAS 11, par. 16 & 22 – 24; SFFAS 14, par. 10; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		
13. Are federal land and land rights not acquired for or in connection to items of general PP&E reported as stewardship land in the RSSI of the financial statements? (SFFAS 8, par. 73 - 74)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Property, Plant, and Equipment (1 – 19)	**Yes, No, or N/A**	**Explanation**
14. Is stewardship land quantified and reported in terms of physical units (e.g., acres) in the RSSI rather than as monetary amounts? (SFFAS 8, par. 75 - 76, 125, & 126; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		
15. If a structure acquired with stewardship land has a significant operating use (e.g., a recently constructed hotel or employee-housing block), is its cost capitalized and treated as general PP&E? (SFFAS 8, par. 78)		
16. If the fair value of stewardship land acquired through donation or devise is known and material, is it disclosed in the notes to the financial statements? (SFFAS 8, par. 79)		
17. If the fair value of the stewardship land acquired through donation or devise is not estimable, is information as to the type and quantity of the assets disclosed? (SFFAS 8, par. 79)		
18. Are costs incurred to prepare stewardship land for its intended use expensed as a part of the cost of stewardship land? (SFFAS 8, par. 80)		

Section X Supplementary Information

Required Supplementary Stewardship Information: **Property, Plant, and Equipment (1 – 19)**	**Yes, No, or N/A**	**Explanation**
19. With regard to stewardship land, does the reporting entity include in its RSSI the following information? a. the number of physical units of stewardship land broken out by principal organization and category of major use b. acquisitions, withdrawals, and ending balances broken out by major categories c. methods of acquisition and withdrawal of stewardship land d. the condition of the stewardship land, unless it is already reported elsewhere in the report (in which case a reference to the information will suffice) e. a reference to the applicable information if deferred maintenance is reported for the assets. (SFFAS 8, par. 81; SFFAS 14, par. 10; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Stewardship Investments (20 – 41)	**Yes, No, or N/A**	**Explanation**
Stewardship investments are made by the federal government for the benefit of the nation. When incurred, they are treated as expenses in calculating net cost, but they are also separately reported as RSSI to highlight their long-term benefit. (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 76 & 77) *Stewardship investment includes:* - *federally financed purchases, construction, or major renovation or physical property, including major equipment owned by state and local governments (i.e., grants for nonfederal physical property)* - *expenses incurred for education and training programs (except those for federal civilian and military personnel) that are intended to increase or maintain national productive capacity (i.e., human capital costs)* - *expenses incurred to support the search for new or refined knowledge and ideas and their application in order to increase or maintain national productive capacity or yield other future benefits (i.e., research and development costs). (SFFAS 8, par. 83, 89, 90, & 96; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 78)*		
20. Are nonfederal physical property investments reported in nominal dollars on the basis of "expenses incurred" and measured on the same basis of accounting used for financial statement purposes? (SFFAS 8, par. 84)		

Section X Supplementary Information

Required Supplementary Stewardship Information: **Stewardship Investments (20 – 41)**	**Yes, No, or N/A**	**Explanation**
21. Are investments in nonfederal physical property and related cash grants recognized and reported as expenses in arriving at the net cost of operations? (SFFAS 8, par. 85; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 78)		
22. Does the reporting entity provide in its RSSI a narrative description and nominal dollar breakout by meaningful category of expenses incurred for programs that fund the purchase, renovation, and replacement of PP&E owned by state and local governments for the year being reported on as well as at least the preceding 4 years?[3] (SFFAS 8, par. 84 - 87 & 122; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79)		
23. Does the reporting entity also include in its RSSI a description of federally owned physical property transferred to state and local governments for the year being reported on as well as at least the preceding 4 years?[4] (SFFAS 8, par. 87 & 128; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79)		

[3] This 4-year rule goes into full effect beginning with the fiscal year 2002 financial statements. Until then entities need only report prior-year data that are available. (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77)

[4] OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77.

Section X Supplementary Information

Required Supplementary Stewardship Information: Stewardship Investments (20 – 41)	**Yes, No, or N/A**	**Explanation**
24. If expense data for the purchase of PP&E for state and local governments for the year being reported and for the preceding 4 years[5] are not available, does the entity report outlay data, if available? (SFFAS 8, par. 87)		
25. If neither historical expense nor outlay data are available for the year being reported on and the preceding 4 years,[6] has the entity begun to report expense data for the current year? (SFFAS 8, par. 87)		
26. Are expenses incurred for program costs, contracts, or grants with split purposes[7] reported in RSSI on the basis of a logical allocation? (SFFAS 8, par. 86, 92, & 98)		
27. If an allocation of costs is not feasible, are the total expenses reported on the basis of the predominant application of the costs incurred for investments in nonfederal physical property, human capital, and research and development? (SFFAS 8, par. 86, 92, & 98)		

[5] OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77.
[6] OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 77.
[7] These are grants split among investments in nonfederal physical property, human capital, and research and development.

Section X Supplementary Information

Required Supplementary Stewardship Information: Stewardship Investments (20 – 41)	**Yes, No, or N/A**	**Explanation**
28. Does the entity report in its RSSI the amounts of significant contributions from state, local, private, and other sources to its investments in nonfederal physical property, human capital, and research and development? (This is not required, but encouraged.) (SFFAS 8, par. 88, 95, & 101)		
29. Is the investment in human capital based on expenses incurred, measured, and accounted for in accordance with SFFAS 4? (SFFAS 8, par. 91)		
30. Does the reporting entity include in its RSSI the dollar amount and a narrative description of its "investment in human capital" for the year being reported on as well as the preceding 4 years?[8] (SFFAS 8, par. 91 & 94; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79)		
31. Does the entity link its investments in human capital to outcomes that can be described in financial, economic, or quantitative terms? (SFFAS 8, par. 93; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 76)		
32. If outcome data are not available, does the reporting entity report output data that best provide indications of the intended program outcomes? (SFFAS 8, par. 93)		

[8] This 4-year rule goes into full effect beginning with the fiscal year 2002 financial statements. Until then entities need only report prior-year data that are available. (OMB Bull. 97-01, p. 79)

Section X Supplementary Information

Required Supplementary Stewardship Information: Stewardship Investments (20 – 41)	**Yes, No, or N/A**	**Explanation**
33. If expense data for the investments in human capital for the year being reported and for the preceding 4 years are not available, does the entity report outlay data, if available? (SFFAS 8, par. 94)		
34. If neither historical expense nor outlay data for the investments in human capital are available for the year being reported on and the preceding 4 years, has the entity begun to report expense data for the current year? (SFFAS 8, par. 94)		
35. Is expense or outlay data for investments in human capital reported at a meaningful category or level (e.g., by major program or department)? (SFFAS 8, par. 94)		
36. Is the investment in research and development based on expenses incurred, measured, and accounted for in accordance with SFFAS 4? (SFFAS 8, par. 97)		
37. Does the entity link its investments in research and development to program outcome data (e.g., narrative discussions of major discoveries and applications) that can be described in financial, economic, or quantitative terms? (SFFAS 8, par. 93 & 99; OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 78 & 79)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Stewardship Investments (20 – 41)	**Yes, No, or N/A**	**Explanation**
38. If outcome data are not available, does the reporting entity use output (e.g., number of publications, patents, scientific and engineering personnel funded) data that best provide indications of the intended program outcomes? (SFFAS 8, par. 99)		
39. Does the reporting entity include in its RSSI the dollar amount and a narrative description of its investment in major research and development programs for the year being reported on as well as the preceding 4 years?[9] (SFFAS 8, par. 100; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79)		
40. If expense data for the investments in research and development for the year being reported and for the preceding 4 years are not available, does the entity report outlays, if available? (SFFAS 8, par. 100)		
41. If neither historical expense nor outlay data are available for the year being reported on and the preceding 4 years, has the entity begun to report expense data for the current year? (SFFAS 8, par. 100)		

[9] This 4-year rule goes into full effect beginning with the fiscal year 2002 financial statements. Until then entities need only report prior-year data that are available. (OMB Bull. 97-01, p. 79)

Section X Supplementary Information

Required Supplementary Stewardship Information: **Risk Assumed Information (42 - 46)**	**Yes, No, or N/A**	**Explanation**
An assessment of stewardship responsibilities has two major components: *- risk-assumed information, which is generally measured by the present value of unpaid expected losses net of associated premiums (but not yet recognized as a contingent liability) based on the risk inherent in the insurance or guarantee coverage in force (SFFAS 5, par. 105 & 106; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79) and* *- current services assessments, which provide receipt and outlay data on the basis of projections of future activities. Data on current service assessments would be presented as RSSI accompanying the consolidated financial statements of the federal government. (SFFAS 8, par. 101, 102, & 105)*		
42. Does the entity include in RSSI the current amount and periodic changes of "risk assumed" arising from insurance and guarantee programs? (SFFAS 5, par. 105, 106, 110; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 79)		
43. Does the current service assessment provide a summary of projected outlays for the current base year and at least 6 years subsequent to the base year for defense, Social Security, Medicare, net interest functions, etc.? (SFFAS 8, par. 103)		
44. Does the current service assessment identify estimated receipts by major source (e.g., income taxes, social insurance taxes) that will be used to fund projected outlays for the current base year and 6 subsequent years? (SFFAS 8, par. 103)		

Section X Supplementary Information

Required Supplementary Stewardship Information: Risk Assumed Information (42 - 46)	**Yes, No, or N/A**	**Explanation**
45. Does the current service assessment also provide an estimate of the current and projected (over the subsequent 6 years) deficit or surplus of receipts? (SFFAS 8, par. 103)		
46. Are current service assessment data included in the consolidated financial report of the U.S. government identical to the projected data published in the President's Budget for the same period (i.e., the base year [or last completed fiscal year] and 6 years subsequent to the base year)? (SFFAS 8, par. 104)		

Section X Supplementary Information

Required Supplementary Information: Custodial Activity (47 – 48)	**Yes, No, or N/A**	**Explanation**
47. Do entities that collect taxes and duties provide the following supplementary information? a. a discussion of the factors affecting the collectability of compliance assessments recognized as taxes receivable b. if reasonably estimable, claims for refunds not yet accrued but likely to be paid when administrative action is complete c. management's best estimates of unasserted claims for refunds d. amount of assessments defined as written-off (i.e., no further collection potential) that continues to be statutorily collectable e. amounts by which related trust funds may be overfunded or underfunded in comparison with the requirements of the law, if reasonably estimable (SFFAS 7, par. 67.1 - 67.4, 106, & 177; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 80)		
48. If the entity receiving funds from the collecting entity is itself a trust fund, does it provide as supplementary information amounts by which related trust funds may be overfunded or underfunded in comparison with the requirements of the law, if reasonably estimable? (SFFAS 7, par. 67.4, 68, & 177; OMB Bull. 97-01 as amended (Jan.7, 2000), p. 80)		

Section X Supplementary Information

Required Supplementary Information: Segment Information (49 - 50)	**Yes, No, or N/A**	**Explanation**
49. Do all franchise and other intragovernmental support revolving funds report the following supplementary information? a. a brief description of the services provided by the fund and the identity of the fund's major customers (i.e., organizations that account for more than 15 percent of the fund's revenues) b. a summary for the reporting period, by product or line of business, including the following items i. the full cost of goods and services provided ii the related exchange revenues iii the excess of costs over exchange revenues (OMB Bull. 97-01 as amended (Jan. 7, 2000), pp. 80 & 81)		

Section X Supplementary Information

Required Supplementary Information: Segment Information (49 - 50)	**Yes, No, or N/A**	**Explanation**
50. If a franchise fund or other intragovernmental support revolving fund is not separately reported on the entity's principal statements, does the entity report as Required Supplementary Information a summary of the fund's assets, liabilities, and net position that includes the following items as of the reporting date? a. fund balance b. accounts receivable c. property, plant, and equipment d. other assets e. liabilities due and payable for goods and services received f. deferred revenues g. other liabilities and cumulative results of operations (OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 80)		

Section X Supplementary Information

Required Supplementary Information Deferred Maintenance (51 – 54)	**Yes, No, or N/A**	**Explanation**
Maintenance is the act of keeping fixed assets in acceptable condition. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. *Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, originally intended. (SFFAS 6, par. 78)* *Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and that, therefore, is put off or delayed for a future period. (SFFAS 6, par. 77)*		
51. Does the entity report under required supplementary information the following information for each major category of its PP&E (i.e., general, national defense, heritage, and stewardship)? a. the identity (e.g., building, equipment, land) of each major class of asset for which maintenance was deferred b. the method of measuring deferred maintenance (SFFAS 6, par. 21, 83, & 171 –178; SFFAS 11, par. 7; SFFAS 14, par. 1; OMB Bull. 97-01 as amended (Jan. 7, 2000), p. 73)		

Section X Supplementary Information

Condition assessment surveys are periodic inspections of PP&E - based on generally accepted and consistently applied method - to determine PP & E's current condition and the estimated cost to correct any deficiencies. (SFFAS 6, par. 81)		
52. If the condition assessment survey method is used to measure deferred maintenance, is the following information presented for each major class of PP&E? a. a description of requirements or standards for acceptable operating condition b. any changes in the condition requirements or standards c. asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition (SFFAS 6, par. 80, 83, & 233)		

Section X Supplementary Information

Life-cycle costing is an acquisition or procurement technique that considers operating, maintenance, and other costs in addition to the acquisition cost of assets. (SFFAS 6, par. 82)		
53. If the total life-cycle cost method is used to measure deferred maintenance, is the following information presented for each major class of PP&E? a. the original date of the maintenance forecast and an explanation for any changes to the forecast b. prior-year balance of the cumulative deferred maintenance amount c. the dollar amount of maintenance that was defined by the professionals who designed, built, or managed the PP&E as required maintenance for the reporting period d. the dollar amount of maintenance actually performed during the period e. the difference between the forecast and actual maintenance f. any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E g. the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance (SFFAS 6, par. 83)		
54. If management elects to break out deferred maintenance by critical and noncritical amounts needed to bring each class of asset to its acceptable operating condition, does it also include its definition of these categories? (SFFAS 6, par. 84)		

Section X Supplementary Information

Required Supplementary Information: Intragovernmental Amounts (55 – 67)	**Yes, No, or N/A**	**Explanation**
Intragovernmental amounts represent transactions between federal entities included in the Financial Report of the United States Government. These transactions include activity (consolidated or net of intra-entity transactions) with federal CFO Act and non-CFO Act entries as identified in the Treasury Financial Manual. The intragovernmental supplementary information may be limited to the consolidated agencywide financial statements of the 24 executive departments and agencies covered by appendix A of OMB Bulletin No. 98-08. (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, Technical Amendments to OMB Bull. 97-01, pp. 3 & 4		
55. Does the entity report as required supplementary information and intragovernmental amounts for the following items? a. assets b. liabilities c. nonexchange revenue d. for certain reporting entities, earned revenue from trade (buy/sell) transactions along with the gross cost to generate such revenue (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 3, 5th par.)		
56. Does the entity report intragovernmental assets, liabilities, and earned revenue from trade transactions and nonexchange revenue by trading partner (reciprocal federal entity)? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 3)		

Section X Supplementary Information

Required Supplementary Information: Intragovernmental Amounts (55 – 67)	**Yes, No, or N/A**	**Explanation**
57. Does the entity report intragovernmental gross cost to generate earned revenue from trade transactions by budget functional classification? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 3)		
58. Do intragovernmental asset and liability categories reported as requiring supplementary information agree with the intragovernmental asset and line items reported on the balance sheet? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 3)		
59. Are transactions with components of federal departments and agencies (e.g., Forest Service of the USDA) included in the activity reported for the federal department or agency? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 4)		

Section X Supplementary Information

Required Supplementary Information: Intragovernmental Amounts (55 – 67)	**Yes, No, or N/A**	**Explanation**
60. Does the entity reconcile the following amounts with its trading partners? a. investments in federal securities issued by the Department of the Treasury, Bureau of the Public Debt b. borrowings from Treasury and the Federal Financing Bank c. transactions with the Department of Labor relating to the Federal Employees Compensation Act d. transactions with the Office of Personnel Management relating to employee benefit programs (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 4, 3rd par.)		
61. Does the entity also reconcile intragovernmental asset, liability, and revenue amounts[10] with its trading partners at least annually as of the fiscal year end? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 4, 4th par.)		

[10] Balances reported for other asset or liability categories and individual transactions that collectively comprise less than 20 percent of the total asset and liability categories may be excluded from reconciliation.

Section X Supplementary Information

Required Supplementary Information: Intragovernmental Amounts (55 – 67)	**Yes, No, or N/A**	**Explanation**
62. Do intragovernmental assets and liabilities reported as required supplementary information agree with the intragovernmental asset and liability line items and totals on the reporting entity's consolidated agencywide balance sheet? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, pp. 5 & 6)		
63. For each intragovernmental asset and liability line item on the consolidated agencywide balance sheet, does the entity identify in the supplementary information the trading partner balances that make up the line item?[11] (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, pp. 5 & 6)		
64. If intragovernmental transactions with a trading partner are material in one asset or liability category but immaterial in another category, does the entity report transactions with the trading partner for each category? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000 *Technical Amendments to OMB Bull. 97-01*, 2000, pp. 5 & 6)		

[11] Reporting entities may aggregate trading partners whose individual totals for a particular asset category collectively comprise less than 20 percent of the total line item category.

Section X Supplementary Information

Required Supplementary Information: Intragovernmental Amounts (55 – 67)	**Yes, No, or N/A**	**Explanation**
65. If the entity has total intragovernmental earned revenues from trade transactions (net of intra-entity activity) of greater than $500 million, does it report such intragovernmental revenues by trading partner? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 7)		
66. If the entity reports intragovernmental earned revenues, does it also report, by budget functional classification, the gross cost of goods, services, and other transactions that generated the intragovernmental earned revenues? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 7)		
67. Does the entity report, by trading partner, intragovernmental nonexchange revenues transferred in and out? (Attachment to OMB Memo M-00-05, of Jan. 7, 2000, *Technical Amendments to OMB Bull. 97-01*, p. 7)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
Social insurance programs covered by SFFAS 17, Accounting for Social Insurance, have five common characteristics. They are *a. financing from participants or their employers;* *b. eligibility from taxes and fees paid and time worked in covered employment;* *c. benefits not directly related to taxes and fees paid;* *d. benefits prescribed in law; and* *e. programs intended for the general public.* *The social insurance programs specifically covered by SFFAS 17 are* *a. Old-Age, Survivors, and Disability Insurance (OASDI - i.e., Social Security);* *b. Hospital Insurance (HI or Medicare Part A) and Supplementary Medical Insurance (SMI or Medicare Part B);* *c. Railroad Retirement Benefits (RRB);* *d. Black Lung Benefits; and* *e. Unemployment Insurance (UI).* *The standard for consolidated governmentwide accounting and reporting for social insurance programs is the same as that for component entities unless otherwise indicated (SFFAS 17, par. 14, 15, 29, 44, 45, & app. D - glossary)*		
68. In general, does the entity responsible for a given social insurance program provide a clear and concise description of the program including its financing, calculation of benefits, and actuarial status? (SFFAS 17, par. 24, 110 - 112, & 131 - 149)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
69. Does this description include the following information? a. discussion of the long-term sustainability and financial condition of the program b. an illustration and explanation of the long-term trends revealed in the data (SFFAS 17, par. 24 & 80 - 85)		
70. Does the consolidated governmentwide financial report explain the relationship of the social insurance program(s) to governmentwide financing, including the intragovernmental nature of trust fund assets and government debt? (SFFAS 17, par. 31)		
71. Does the reporting entity describe statutory or other material changes, and implications thereof, affecting the program after the current fiscal year? (SFFAS 17, par. 24)		
72. Are projections and estimates based on the entity's best estimates of demographic and economic assumptions? (SFFAS 17, par. 25)		
73. Does the entity disclose significant assumptions used in making estimates and projections? (SFFAS 17, par. 25)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
74. Are all projections and estimates made as of a date (i.e., the valuation date) as close to the end of the fiscal year (i.e., current year) being reported on as possible and no more than one year prior to the end of the current year? (SFFAS 17, par. 26)		
75. Does the entity consistently follow this valuation date from year to year? (SFFAS 17, par. 26)		
76. Does information on the financial and actuarial status of the social insurance programs include actuarial projections that are indicative of long-term sustainability and show the annual cash flows in nominal dollars for current and future participants? (SFFAS 17, par. 27 (1))		
77. Are the actuarial projections of cash flow amounts reported for at least every fifth year in the projection period? (SFFAS 17, par. 17 (1) (a))		
78. Does the cash flow information show the following amounts? a. total cash inflow from all sources (i.e., by and on behalf of participants) less net interest on intragovernmental borrowing and lending b. total cash outflow (SFFAS 17, par. 27 (1) (a))		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
79. When cash flow projections are made for the consolidated governmentwide entity, is interest on intragovernmental borrowing and lending excluded? (SFFAS 17, par. 32)		
80. Does the narrative accompanying the cash flow data include identification of any year or years during the projection period when cash outflow exceeds cash inflow, with and without interest, on intragovernmental borrowing or lending? (SFFAS 17, par. 27 (1) (a), 87, 88, 116, & 117)		
81. Does the narrative provide an explanation of the significance of the cash flow “cross-over points” where cash outflows begin exceeding cash inflows? (SFFAS 17, par. 27 (1) (a) & 32 (1) (a))		
82. Do the cash flow projections (net of interest on intragovernmental borrowing/lending) for Medicare Part A (HI) and Social Security (OASDI) include an estimate of cash flows as a percentage of taxable payroll? (SFFAS 17, par. 27 (1) (b), 89, 118 - 120, & app. D - glossary)		
83. Do the cash flow projections (net of interest on intragovernmental borrowing/lending) for HI, OASDI, and Medicare Part B (SMI) include an estimate of cash flows as a percentage of gross domestic product? (SFFAS 17, par. 27 (1) (b), 46, 47, 89, & 121 - 122 & app. D - glossary)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
84. Does the entity disclose its estimate of the ratio of the number of contributors to the number of beneficiaries during the same projection period as for cash flow projections (e.g., 75 years)? (SFFAS 17, par. 27 (2), 90, & 130)		
85. At a minimum, is the ratio of contributors to beneficiaries reported for the beginning and end of the projection period? (SFFAS 17, par. 27 (2))		
86. For all enumerated social insurance programs except Unemployment Insurance (UI), does the responsible entity present a statement of actuarial present values of the following items? a. all future expenditures during the projection period related to benefit payments i. to or on behalf of current participants who have not yet attained retirement age ii. to or on behalf of current participants who have attained retirement age iii. to or on behalf of those who are expected to become plan participants b. all future contributions and tax income from or on behalf of current and future participants described in “a” c. cash flow derived from subtracting “b” from “a” (SFFAS 17, par. 27 (3) (a) - (g), 40 - 42, 91 - 103, & 115)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
87. With the exception of Unemployment Insurance (UI), does the entity disclose in the notes of the fund balance, as of the valuation date, the accumulated excess of all past cash receipts, including interest on investments over all cash disbursements? (SFFAS 17, par. 27 (2) (a) & (3) (h), 42, & 113)		
88. Does the entity also disclose how it calculated the actuarial net present value of future benefits and contributions from or on behalf of current participants of all social insurance programs but UI? (SFFAS 17, par. 27 (2) (a) & (3) (i))		
89. If available, does the entity provide estimates of the actuarial present values and fund balances of the social insurance programs (except UI) under its purview for each of the 4 preceding years? (SFFAS 17, par. 27 (3) (j) & 28)		
90. For all social insurance programs except UI, does the responsible entity illustrate the sensitivity of the projections of cash flows and actuarial present values to changes in the most significant individual assumptions? (SFFAS 17, par. 27 (4) (a), 48, 49, & 123 – 129)		

Section X Supplementary Information

Required Supplementary Information **Social Insurance Programs (68 – 94)**	**Yes, No, or N/A**	**Explanation**
91. At a minimum, do the Social Security and Medicare programs analyze assumptions regarding the following factors? a. birth and death rates b. net immigration c. real wage differential d. real interest rate (SFFAS 17, par. 27 (4) (a) & 123 - 129)		
92. Does the sensitivity analysis for UI programs show the effects of increasing the unemployment rate as follows? a. by approximately 1 percentage point b. to a level that puts significant stress on the system (e.g., to simulate the largest recession occurring within the last 25 years) (SFFAS 17, par. 27 (4) (b) & 159 - 160)		
93. Does information on the UI program provide a state-by-state analysis of the relative solvency of individual state programs, including the ratio of each state's current accumulated fund balance to the highest level of annual benefit payments experienced by that state over the last 20 years? (SFFAS 17, par. 27 (5) & 159 - 160)		

Section X Supplementary Information

Required Supplementary Information Social Insurance Programs (68 – 94)	**Yes, No, or N/A**	**Explanation**
94. Does the consolidating entity break out and separately identify, at a minimum, the following information on social insurance programs? a. cash flow projections net of intragovernmental borrowing and lending for, at a minimum, the OASDI, HI, and SMI programs b. net cash flows as a percentage of taxable payroll for OASDI and HI c. net cash flows as a percentage of gross domestic product (GDP) for the Social Security and Medicare programs d. the ratio of contributors to beneficiaries for OASDI and HI e. the actuarial present values for all covered social insurance programs (except UI) for the current and proceeding 4 years f. sensitivity analyses for all social insurance programs including OASDI, HI, SMI, and UI g. a state-by-state analysis of the UI program (SFFAS 17, par. 32)		

Section X Supplementary Information

Required Supplementary Information: Management Discussion and Analysis (95 – 101)	**Yes, No, or N/A**	**Explanation**
95. Does the entity include as required supplementary information management discussion and analysis (MD&A) of the financial statements and related information? (SFFAS 15, par. 1, 12, & 13; SFFAC 3, par. 1 & 2)		
96. Does the MD&A provide a clear and concise description of the reporting entity and its mission, activities, program and financial performance, systems controls, legal compliance, financial position, and financial condition? (SFFAS 15, par. 2; SFFAC 3, par. 1)		
97. Is the MD&A balanced, providing both positive and negative information? (SFFAS 15, par. 1; SFFAC 3, par. 29)		
98. Does the MD&A contain sections that discuss the following information about the entity? a. mission and organizational structure b. performance goals, objectives, and results c. financial statements and d. systems, controls and legal compliance (SFFAS 15, par. 2; SFFAC 3, par. 9, 11, 13, 15 - 17, 25 - 27, & 42 - 49)		

Section X Supplementary Information

Required Supplementary Information: Management Discussion and Analysis (95 – 101)	**Yes, No, or N/A**	**Explanation**
99. Does the MD&A include forward-looking information regarding the possible future effects of the most important currently known demands, risks, uncertainties, events, conditions, and trends? (SFFAS 15, par. 3 & 21; SFFAC 3, par. 6, 9, 14, & 30 - 36)		
100. Does the MD&A discuss important problems that need to be addressed as well as actions that have been taken or planned? (SFFAS 15, par. 4; SFFAC 3, 40 & 41)		
101. Does the MD&A limit itself to the most important matters that could, for example, contribute the following results? a. lead to significant actions or proposals by top management of the reporting unit b. be significant to the managing, budgeting, and oversight functions of Congress and the administration c. significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government (SFFAS 15, par. 5 & 6; SFFAC 3, par. 28 & 29)		

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1005 - SUBSEQUENT EVENTS REVIEW

.01 This section deals with the subsequent events review that the auditor is required to perform as part of the audit, as described in section 550. AU 560 describes and provides guidance on the types of subsequent events requiring evaluation by the auditor as well as the procedures that generally should be performed to discover whether such events have occurred.

.02 Subsequent events are those events or transactions that may occur or become known subsequent to the date of the financial statements but before the audit report is issued and that have a material effect on the financial statements and thus require adjustment or disclosure.

.03 Two types of subsequent events may occur:

- Events occurring after the date of the financial statements that provide additional information about conditions existing at the date of the financial statements and that affect amounts recorded (or which should be recorded) in the financial statements. For example, a subsequent event may reveal that an accounting estimate is materially incorrect and that the financial statements should be adjusted.

- Events occurring after the date of the financial statements that provide information about conditions that did not exist at the date of the financial statements. These events should not result in adjustments to the financial statements, but disclosure of them may be necessary to prevent the statements from being misleading. For example, a fire or flood after year-end may cause a significant loss.

.04 The purpose of a subsequent events review is to determine whether all subsequent events that have a material effect on the financial statements have been considered and treated appropriately in the financial statements. The subsequent period covered is from the date of the financial statements to the date of the audit report, which is the date of the completion of fieldwork.

AUDIT PROCEDURES

.05 At or near the completion of fieldwork, the auditor generally should perform specific procedures to be satisfied that he or she is aware of all subsequent events that may require adjustment to or disclosure in the financial statements. These procedures are in addition to substantive tests that may be applied to transactions occurring after the date of the financial statements, such as examining subsequent disbursements to test completeness of accounts payable. The following program describes audit procedures that may be performed as part of a subsequent events review. The procedures generally should be customized for the particular audited entity.

Entity____

Period of financial statements____

Job code____

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
I. Read Interim Financial Statements A. Compare the latest available interim financial statements, if any, with the financial statements under audit to identify any unusual adjustments and investigate any significant variations. B. Inquire as to whether the interim statements have been prepared on the same basis as the annual statements. C. For items in the statement of net costs, compare to similar interim financial statements of the prior year; consider expectations and investigate any significant variations. D. If interim financial statements are not available: 1. Compare interim internal financial reports or analyses, budgets, or cash-flow forecasts, considering any adjustments to the internal reports that may be necessary to make meaningful comparisons. 2. Review the accounting records prepared since the date of the financial statements for material transactions that may require adjustment to or disclosure in the financial statements, such as by scanning the general ledger and/or journals for material, unusual entries.		

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
II. Make Inquiries of Management as to: A. Whether any significant contingent liabilities or commitments existed at the date of the financial statements or at the date of the inquiry. B. Whether any significant changes occurred in the financial condition of the entity or in net position or long-term debt. C. The current status of items in the financial statements that were accounted for on the basis of tentative, preliminary, or inconclusive data. D. Whether any significant changes in estimates were made with respect to amounts included or disclosed in the financial statements, or any significant changes in assumptions or factors were considered in determining estimates. E. Whether any unusual adjustments have been made during the period from the date of the financial statements to the date of inquiry. F. Whether any significant events occurred subsequent to the date of the financial statements, such as commitments or plans for major capital expenditures; lawsuits filed or settled other than those disclosed in the lawyers' letters; changes in accounting and financial policies; or losses as a result of fire, flood, or other disaster.		

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
III. Read Minutes A. Read the available minutes of meetings of agency management committees or other appropriate groups, including the period after the date of the financial statements, for information about events or transactions authorized or discussed which may require adjustment to or disclosure in the financial statements. B. With regard to meetings for which no minutes are available, inquire about matters dealt with at such meetings and conclusions reached.		
IV. Cover Subsequent Events in Lawyers' Letters A. Confirm litigation, claims, and assessments with the entity's legal counsel. See section 550 and AU 337.		
V. Cover Subsequent Events in Management Representation Letter A. Have management include representations in its management representation letter as to whether any events occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements. See section 1001.		

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
VI. Other A. Use other sources of information to learn of subsequent events, such as: 1. Talk to inspector general or internal audit department. 2. Talk to program divisions. 3. Read newspapers. B. Make additional inquiries or perform additional procedures deemed necessary to resolve any questions raised in the foregoing audit steps. C. Prepare a summary memo documenting the results of the above and conclusions reached.		

1006 - RESERVED

[For related parties, see FAM section 902]

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